



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS & ECONOMICS
UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF EDUCATION
ARTS
4TH YEAR 2ND SEMESTER 2023/2024 ACADEMIC YEAR
MAIN CAMPUS

COURSE CODE: ABA 434 / BAB 9204

COURSE TITLE: BUSINESS FINANCE

EXAM VENUE: LAB I

STREAM: (BED)

DATE: 24/04/2024

EXAM SESSION: 9.00 – 11.00 AM

DURATION: 2 HOURS.

Instructions:

- 1. Answer Question ONE (COMPULSORY) and ANY other 2 questions**
- 2. Candidates are advised not to write on the question paper.**
- 3. Candidates must hand in their answer booklets to the invigilator while in the examination room.**

QUESTION ONE (30 MARKS)

- a.) Explain briefly NINE most popular sources of business financing in Kenya. (18 marks)
b.) Explain EIGHT Features of business finance. (12 marks)

QUESTION TWO (20 MARKS)

a) P. Muli was recently appointed to the post of investment manager of Masada Ltd. a quoted company. The company has raised Sh.8,000,000 through a rights issue.

P. Muli has the task of evaluating two mutually exclusive projects with unequal economic lives. Project X has 7 years and Project Y has 4 years of economic life. Both projects are expected to have zero salvage value. Their expected cash flows are as follows:

Project Year	X Cash flows (Sh.)	Y Cash flows (Sh.)
1	2,000,000	4,000,000
2	2,200,000	3,000,000
3	2,080,000	4,800,000
4	2,240,000	800,000
5	2,760,000	-
6	3,200,000	-
7	3,600,000	-

The amount raised would be used to finance either of the projects. The company expects to pay a dividend per share of Sh.6.50 in one year's time. The current market price per share is Sh.50. Masada Ltd. expects the future earnings to grow by 7% per annum due to the undertaking of either of the projects. Masada Ltd. has no debt capital in its capital structure.

Required:

- (a) The cost of equity of the firm. (3 Marks)
(b) The net present value of each project. (6 Marks)

QUESTION THREE (20 MARKS)

An extract from the finance statements of Kenyango Fisheries Ltd is shown below:

	Shs.
Issued share capital:	
150,000 ordinary shares of Sh.10 each fully paid	1,500,000
10% loan stock 1999	2,000,000
Share premium	1,500,000
Revenue Reserve	<u>7,000,000</u>
Capital employed	<u>12,000,000</u>

- The profits after 30% tax is Sh.600,000. However, interest charge has not been deducted.
- Ordinary dividend payout ratio is 40%.
- The current market value of ordinary shares Shs.36

Required

- | | | |
|----|--------------------------------|-----------|
| a) | Return on capital employed | (3 Marks) |
| b) | Earnings per share | (3 Marks) |
| c) | Price earnings ratio | (3 Marks) |
| d) | Book value per share | (3 Marks) |
| e) | Gearing ratio | (4 Marks) |
| f) | Market to book value per share | (4 Marks) |

QUESTION FOUR

- Money in the present is worth more than the same sum of money to be received in the future. What is the Time Value of Money? (10 Marks).
- Explain briefly Time Value and Purchasing Power(inflation) (5 Marks).
- A specific formula can be used for calculating the future value of money, calculate the Future value.

$$FV = PV \times [1 + (i / n)]^{(n \times t)}$$

Where:

FV = the future value of money

PV = the present value

i = the interest rate or other return that can be earned on the money

t = the number of years to take into consideration

n = the number of compounding periods of interest per year

QUESTION FIVE

- Using the formula above, calculate future value where you have KShs. 5,000 and can expect to earn 5% interest on that sum each year for the next two years. Assuming the interest is only compounded annually (5 Marks)

- b. Collins is the managerial accountant in charge of Company A, which sells water bottles. He previously determined that the fixed costs of Company A consist of property taxes, a lease, and executive salaries, which add up to \$100,000. The variable cost associated with producing one water bottle is \$2 per unit. The water bottle is sold at a premium price of \$12. Calculate the break-even point of Company A's premium water bottle.

(5 Marks)

- c. Explain Briefly the difference between Financial Forecasting and Financial Modeling (5 Marks)