



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS & ECONOMICS
UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION WITH IT
4TH YEAR 2ND SEMESTER 2019/2020 ACADEMIC YEAR

COURSE CODE: ABA 434

COURSE TITLE: BUSINESS FINANCE

EXAM VENUE:

STREAM: (BBA FINANCE)

DATE:

EXAM SESSION:

TIME: 2 HOURS

Instructions:

- 1. Answer questions ONE 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

- i. Define the term business finance 5mks
- ii. List and describe three (3) versions of efficient market hypothesis (EMH) 8mks
- iii. Highlight five (5) levels involved in Investment management process 5mks
- iv. List and explain seven (7) types of investors 7mks
- v. Sunset Hotel wishes to expand its output by purchasing a new machine worth 170,000 and installation costs are estimated at 40,000/=. In the 4th year, this machine will call for an overhaul to cost 80,000/=. Its expected inflows are:

	Shs.
Year 1	60,000
Year 2	72,650
Year 3	35,720
Year 4	48,510
Year 5	91,630
Year 6	83,715

Sunset Hotel can only raise finance to purchase machine at 12% interest rate. Required; Compute Net Present Value and advise management accordingly. 5mks

QUESTION TWO

- i. Jakondittoh (K) Ltd is an all equity firm whose Beta factor is 1.2, the interest rate on T. bills is currently at 8.5% and the market rate of return is 14.5%.
Required; determine the cost of equity K_e , for the company. 10mks
- ii. For the past 5 years, Jakondittoh (K) Ltd, recorded the following information for MPS and DPS in her books in her books of accounts as follows:

	1998	1999	2000	2001	2002
	Shs.	Shs.	Shs.	Shs.	Shs.
MPS as at 31 st Dec	40	45	53	50	52
DPS for the year	-	3	4	3	-

Required

Determine the estimated cost of equity/shareholders percentage yield for each of the years involved. 10mks

QUESTION THREE

Metro Wholesalers' Ltd wants to raise new capital to finance a new project. The firm will issue 200,000 ordinary shares (Sh.10 par value) at Sh.16 with Sh.1 floatation costs per share, 75,000 12% preference shares (Sh.20 par value) at Sh.18 with sh.150,000 total floatation costs, 50,000 18% debentures (sh.100 par) at Sh.80 and raised a Sh.5,000,000 18% loan paying total floatation costs of Sh.200,000. Assume 30% corporate tax rate. The company paid 28% ordinary dividends which are expected to grow at 4% p.a.

Required

- a) Determine the total capital to raise net of floatation costs 10mks
- b) Compute the marginal cost of capital 10mks

QUESTION FOUR

- i. Assume a project costs Sh.80,000 and will generate the following cash inflows: year one is 10,000; year two is 30,000; year three is 15,000; year four is 20,000; year five is 30,000.

Required; Calculate the Pay Back Period for the investment. 10mks

- ii. A company contemplates to receive some cash from a donor as stipulated below, and the cost of this finance is 12%. Required; Compute Present Value of the project. 5mks

20,000 in year 1

18,000 in year 2

24,000 in year 3

Nil in year 4

40,000 in year 5