



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS & ECONOMICS
UNIVERSITY EXAMINATION FOR THE BACHELOR OF BUSINESS
ADMINISTRATION
2ND YEAR 1ST SEMESTER 2023/2024 ACADEMIC YEAR
MAIN CAMPUS

COURSE CODE: BAB 1203

COURSE TITLE: INTRODUCTION TO BUSINESS FINANCE

EXAM VENUE:

DATE:

DURATION: 2 HOURS.

INSTRUCTIONS

- 1. Answer QUESTION ONE and any other TWO questions**
- 2. Show ALL your workings and be as NEAT as possible.**
- 3. Candidates are advised not to write on the question paper**
- 4. Marks allocated to each question are shown at the end of the question.**

QUESTION ONE (30 MARKS)

- a.) Why It May Be Difficult For Small Companies To Raise Debt Finance In Kenya (Say Jua Kali Companies) and Solutions to the Above Problems (4 Marks)**
- b.) Explain briefly the meaning Debenture Finance (4 Marks)**
- c.) Explain FOUR classifications of debenture finance (12 Marks)**

- d.) List and explain five factors that should be taken into account by a businessman in making the choice between financing by short-term and long-term sources. **(10 marks)**

QUESTION TWO (20 MARKS)

- a.) Three major sources of finance and the main
- i. advantages
 - ii. disadvantages
- (b) Enumerate four advantages of convertible bonds from the point of view of the borrower. **(8 marks)**

QUESTION THREE (20 MARKS)

- a) What is venture capital? **(4 marks)**
- b) Why is the market for venture capital not yet well developed in Kenya or your country? **(16 marks)**

QUESTION FOUR (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 FIVE (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 2,000,000
10% loan stock 1999	1,500,000
Share premium	<u>7,000,000</u>
Revenue Reserve	<u>12,000,000</u>
Capital employed	

- 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)

