



GARISSA UNIVERSITY COLLEGE

(A Constituent College of Moi University)

**UNIVERSITY EXAMINATION 2016/2017 ACADEMIC YEAR TWO
SECOND SEMESTER EXAMINATION**

SUPPLEMENTARY/SPECIAL EXAMINATION

SCHOOL OF BUSINESS AND ECONOMICS

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: BBM 231

COURSE TITLE: BUSINESS FINANCE

EXAMINATION DURATION: 3 HOURS

DATE: 28/09/17

TIME: 2.00-5.00 PM

INSTRUCTION TO CANDIDATES

- **The examination has SIX (6) questions**
- **Question ONE (1) is COMPULSORY**
- **Choose any other THREE (3) questions from the remaining FIVE (5) questions**
- **Use sketch diagrams to illustrate your answer whenever necessary**
- **Do not carry mobile phones or any other written materials in examination room**
- **Do not write on this paper**

This paper consists of TWO (2) printed pages

Supplementary / special exam

1

please turn over

Good Luck – Exams Office



QUESTION ONE (COMPULSORY)

- (a) Differentiate between public and corporate finance **[3 marks]**
- (b) Illustrate the importance of time value of money. **[3 marks]**
- (c) Discuss the payback period method of project appraisal. **[5 marks]**
- (d) Cash received now is not the same as money received in the future. Explain. **[5 marks]**
- (e) Derive the basic accounting equation **[3 marks]**
- (f) Highlight the importance of financial position statement **[6 marks]**

QUESTION TWO

- (a) Outline the factors that determine the payment of dividends in companies. **[9 marks]**
- (b) The present share capital of Garissa motors consists of 1000 shares selling at kshs 100 each. The company is contemplating a dividend of kshs. 10 per share at the end of the current financial year. The company belongs to a risk class for which appropriate capitalization rate is 20%. The company expects to have a net income of kshs. 25,000. What will be the price of the share at the end of the year if:
 - (c) Dividend is not declared
 - (d) A dividend is declared. Presuming that the company pays the dividend and has to make new investment of kshs. 48,000 in the coming period, how many new shares be issued to finance the investment program? Use MM model for this purpose.

QUESTION THREE

- (a) What do we mean by the term compound interest **[2 marks]**
- (b) A financial investor wants to get ten million Kenya shillings after five years from a bank that pays 11% simple interest. How much should he or she deposit now **[5 marks]**
- (c) A farmer deposits seven million today in a bank that pays compound interest at a rate of 13%. How much interest will he get after six years **[5 marks]**
- (d) Explain why people would rather invest through companies than individually **[3 marks]**



QUESTION FOUR

- (a) Suppose that you go to a bank and express interest in applying for a credit card, what would you expect to be different between you and somebody requiring an overdraft **[6 marks]**
- (b) Describe how discounting is done and its importance **[6 marks]**
- (c) Liquidity and solvency, although related are quite different concepts. Justify the statement **[3 marks]**

QUESTION FIVE

- (a) State advantages and disadvantages of:
- i. Raising money through sale of shares **[3 marks]**
 - ii. Running a sole proprietorship **[3 marks]**
 - iii. Taking a mortgage **[3 marks]**
- (b) Highlight the meaning of asset financing **[3 marks]**
- (c) State disadvantages of payment by cash. **[3 marks]**

QUESTION SIX

- (a) Shed light on the concept of financial leverage **[3 marks]**
- (b) State the roles of the central bank of Kenya. What gives the body the authority to execute such **[12 marks]**

