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 **GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2018/2019 ACADEMIC YEAR TWO**

**FIRST SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

**FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 231**

**COURSE TITLE: BUSINESS FINANCE**

**EXAMINATION DURATION: 2 HOURS**

**DATE: 29/11/18 TIME: 3.00-5.00 PM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FIVE (5) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other TWO (2) questions from the remaining FOUR (4) 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 FOUR (4) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

1. Discuss the problems that might exist in the relationships between
2. Shareholders and managers **[3 marks]**
3. Shareholders and creditors **[3 marks]**
4. Explain three key roles of a capital markets regulator in your country. **[6 marks]**
5. Outline five (5) reasons why it’s important for business organizations to manage its cash flow **[5 marks]**
6. Briefly explain the factors that influence the decision regarding economic order quantities of any stock. **[3 marks]**
7. Blue Light Limited is considering whether it is necessary to purchase equipment to increase its production and sales volumes. The equipment costs Sh.1,000,000 and has a useful life of three years after which it can be sold as scrap for Sh.400,000. For each of the three years of usage, the equipment is expected to increase both sales revenue and operating costs by Sh.800,000 and Sh.590,000 respectively. The company's cost of capital is 10%

**Required:**

1. Calculate the project’s net present value (NPV) **[3 marks]**
2. Determine the percentage changes (IRR) required in the cost of the equipment, the scrap value and the sales revenue for the project to be rejected. **[7 marks]**

**QUESTION TWO**

1. “Despite the large investment in the securities exchange and the various government incentives, only a few companies are listed at the securities exchange of the three East African countries.” This was the opening remark by the guest speaker in a seminar whose theme was “Developing our capital market.”

**Required:**

1. What is a primary market? **[2 marks]**
2. Explain the functions of a securities exchange. **[4 marks]**
3. Explain the methods of obtaining a listing on the securities exchange. **[4 marks]**
4. What do you understand by the term Discounted Cash Flow? Describe the usefulness of this method of evaluating capital projects. **[5 marks]**
5. Kashmi Limited invested in a project which promises annual Cash Flow into perpetuity as shown below:

Year 1-4 5-10 11-α

Cash flows 1000,000 1,500,000 2,000,000

If the discounting rate is 13%, compute the present value of the cash flows. **[5 marks]**

**QUESTION THREE**

1. The success and growth of any business enterprise depends upon efficient utilization of available resources. In line with the above statement, discuss the importance of capital budgeting in a business organization. **[10 marks]**
2. Mega Ltd. had the following capital structure as at 30th June 2018:

600,000, Ordinary share capital of sh. 10 par value

200,000, 10% Preference share capital of sh.20 each.

60,000, 10% Debenture capital of sh. 180 each

**Additional information:**

1. The market price of each ordinary share as at 30th June 2018 is Shs. 10.
2. The company paid a dividend of Shs. 5 for each ordinary share for the year ended 30th June 2018.
3. The annual growth rate in dividends is 10%.
4. Preference shares were issued 10 years ago and are still selling at par value
5. The company’s long term debentures currently change hands for Sh.150 each. The debentures will mature in 70 years.
6. The corporation tax rate is 30%.

**Required:**

1. Compute the weighted average cost of capital of the company as at 30th June 2018 **[10 marks]**

**QUESTION FOUR**

1. Discuss the importance of using ratio analysis in the evaluation of the performance of a company.  **[10 marks]**
2. Bayan ltd has the following data for the year ended 31st December, 2016

Profit after tax Shs.100,000,000

Total dividend for the year Shs. 20,000,000

Market price per share (MPS) shs .50

Number of ordinary shares 1,000,000

Using the above data, Compute the following financial ratios and explain their significance:

1. Earnings per share (EPS) **[2 marks]**
2. Dividend per share (DPS) **[2 marks]**
3. Dividend payout ratio **[2 marks]**
4. Retention ratio **[2 marks]**
5. Dividend Cover **[2 marks]**

**QUESTION FIVE**

1. Distinguish between risk and uncertainty. . [**2 marks]**
2. Explain four factors which determine the firm’s working capital needs. **[8 marks]**
3. Discuss factors that a company should consider when formulating dividend policy **[10 marks]**