



ALUPE UNIVERSITY
COLLEGE

...Bastion of Knowledge...

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**OFFICE OF THE DEPUTY PRINCIPAL
ACADEMICS, STUDENT AFFAIRS AND RESEARCH**

UNIVERSITY EXAMINATIONS

2020 /2021 ACADEMIC YEAR

THIRD YEAR FIRST SEMESTER MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF EDUCATION ARTS

COURSE CODE: EDB 300

COURSE TITLE: BUSINESS FINANCE

DATE: 11TH MARCH, 2021

TIME: 2PM – 5.00 PM

INSTRUCTION TO CANDIDATES

- SEE INSIDE

THIS PAPER CONSISTS OF 3 PRINTED PAGES

PLEASE TURN OVER

MAIN EXAM**EDB 300: BUSINESS FINANCE****STREAM: BED (Arts)****DURATION: 3 Hours****INSTRUCTIONS TO CANDIDATES**

- i. Answer Question **ONE** and any other **TWO** questions.
- ii. Maps and diagrams should be used whenever they serve to illustrate the answer.
- iii. Do not write on the question paper.

QUESTION ONE

- (a) There are some cons given external sourcing of funds in a firm. Discuss. (6 marks)
- (b) In what ways can a financial institution carry out credit investigation? (10 marks)
- (c) Indicate why accounting rate of return (ARR) and payback period are considered traditional capital budgeting evaluation techniques (4 marks)
- (d) Oshwal Limited issues Shs. 1,000,000, 9% debentures at a premium of 10%. Issuance costs and tax rate were 2% and 50% respectively.

Required;

- (i) Cost of the debenture (4 marks)
- (ii) Cost of the debenture if issued at premium of 7.5% (3 marks)
- (iii) Cost of the debenture if issued at a discount of 8% (3 marks)

QUESTION TWO

- (a) Several methods exist for evaluating investment projects under capital budgeting. Identify and explain three features of an ideal investment appraisal method. (6 marks)
- (b) In evaluating investment decisions, cash flows are considered to be more relevant than profitability associated with the project. Explain why this is the case. (4 marks)
- (c) East Africa Limited have opted for investment K and as a way of diversifying. The required rate of return is 12%. The following information has been provided;

Year	Investment K	Investment L
	Shs.'000'	Shs.'000'
1	30,000	45,000
2	50,000	62,100
3	58,000	70,000
4	68,000	72,500

Required; Using modified Internal rate of return (MIRR) technique, advise the firm on the project to undertake (Initial investment for investment K and L is shs.100 million and shs. 130 million respectively. (10 marks)

QUESTION THREE

The Nairobi securities exchange (NSE) was established in Kenya and is regulated by the Capital markets Authority (CMA). In view of this, analyze;

- (i) Key issues that will be considered by CMA to review NSE (8 marks)
- (ii) There are well-known obstacles in NSE as it dedicates to steer Kenya's economy. Explain. (12 marks)

QUESTION FOUR

- (a) 'Financial ratio analysis is vital for decision making by external users of an organization'.

Discuss. (8 marks)

- (b) How reliable are the following financial ratios in an organization?

- (i) Liquidity ratios (4 marks)
- (ii) Leverage ratios (4 marks)
- (iii) Profitability ratios (4 marks)

QUESTION FIVE

- (a) Lucas wishes to determine the future value at the end of two years of a Sh.150, 000 deposit made today into an account paying a nominal interest rate of 12%. Find the future value of Lucas' deposit assuming that interest rate is compounded:

- (i) Annually (3 marks)
- (ii) Quarterly (3 marks)
- (iii) Monthly (3 marks)

- (b) William borrows Sh.7, 000,000 at 12% interest rate toward the purchase of a new house. His mortgage is for 30 years.

- (i) How much will his annual payments be? (3 marks)
- (ii) How much interest will he pay over the life of the loan? (3 marks)
- (iii) Prepare the amortization table for the first 5 years (5 marks)
