



**ALUPE UNIVERSITY  
COLLEGE**

*...Bastion of Knowledge...*

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**OFFICE OF THE DEPUTY PRINCIPAL**

**ACADEMICS, RESEARCH AND STUDENTS' AFFAIRS**

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# **UNIVERSITY EXAMINATIONS**

## **2019 /2020 ACADEMIC YEAR**

**...2.... YEAR .....2... SEMESTER REGULAR EXAMINATION**

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

**COURSE CODE: BBM 220 (MAIN EXAM)**

**COURSE TITLE: BUSINESS FINANCE**

**DATE:30/10/2020**

**TIME: 3 HOURS**

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### **INSTRUCTION TO CANDIDATES**

- Answer Question **ONE** and any other **TWO** questions
- Question **ONE** carries 30 marks

### QUESTION ONE

- a) Briefly explain the objectives of business finance (10 marks)
- b) Explain any five external sources of funds to a business (10 marks)
- c) State and explain five uses of financial ratios in an organization (5 marks)
- d) Describe features of ordinary share capital as a source of finance. (5 marks)

### QUESTION TWO

Waza Ltd produces a product that has the following sales and purchases forecast for the year 2016

	Shs '000'	Shs '000'
Month	Sales	Purchases
April	1,500	1,000
May	1,600	1,100
June	1,600	900
July	1,700	900
August	2,000	800
September	2,000	1,300
October	1,800	1,400
November	1,800	600
December	2,000	600

#### Additional Information

- i. Of these sales, 60% are collected during the month, 30% are collected the next month and 10% are collected two months after sale
- ii. Suppliers are paid one month after delivery of goods
- iii. Corporation tax for 2015 amounting to shs 200,000 will be paid on September 2016
- iv. Contractor's retention monies amounting to shs 500,000 will be paid on 30th Jun 2016
- v. In October the company is due to receive shs 600,000 for a civil suit
- vi. The monthly administration expenses amounting to shs 330,000 include factory depreciation charge of shs 40,000 and preliminary expenses of shs 30,000

- vii. A machine worth shs 130,000 will be paid for in November 2016  
 Required; Prepare a cash budget for the period 1st June to 31st Dec 2016 (20 marks)

### QUESTION THREE

Two mutually exclusive projects proposals with the following cash flows for their lifespan are under consideration by the management of XYZ.

Year	Cash Flows (Shs.)	
	Project X	Project Y
1	420,000	255,000
2	380,000	125,000
3	410,000	210,000
4	370,000	460,000
5	395,000	695,000
	Initial costs outlay (1,050,000)	(1,050,000)

The firm cost of capital stands at 10% p.a Required:

- i) Pay back period (4 marks)
- ii) Accounting rate of return (6 marks)
- iii) Net present values of both projects. (6 marks)
- iv) Profitability index (2 marks)
- v) Advice management on which project to select in each technique used above. (2 marks)

### QUESTION FOUR

Explain the following dividend theories as applied in finance

- i. M and M dividend irrelevance theory (4 marks)
- ii. Bird in hand theory (4 marks)
- iii. Information signaling effect theory (4 marks)

iv. Clientele effect theory

(4 marks)

v. Agency theory

(4 marks)

### **QUESTION FIVE**

Homa bay Investment Ltd has had a good trading period and wants to raise further finance from the following sources

To issue 100,000 ordinary shares of shs. 10 at shs. 15 each.

To issue 100,000 10% preference shares of shs. 10 at shs. 12 each

To issue 100,000 15% debentures of shs. 100 at shs. 90 each

To raise a medium – term loan of shs. 5 million from a financial institution which will be at an interest rate of 20% p.a

This company will pay an annual dividend to ordinary shares of 14% and a corporation tax of 50% .

#### **Required**

The total amount that this company will raise if this plan is realized.

(5 marks)

The weighted average cost of additional finance.

(15 marks)