



THE MOMBASA POLYTECHNIC UNIVERSITY COLLEGE

Faculty of Business & Social Studies

DEPARTMENT OF BUSINESS STUDIES

BACHELOR OF BUSINESS ADMINISTRATION

HBC 2213: BUSINESS FINANCE

END OF SEMESTER EXAMS

SERIES: APRIL/MAY 2010.

TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES

1. The paper consists of **FIVE** questions.
2. Answer question **ONE** and any other **TWO** questions.

Q.1 (a) Non are given the following balance sheet of the Miti Mingi Company for the year ended 31st December 2008.

	Shs.	Shs.
Plant and equipment (Net)		2,400,000
Current Assets:		
Stock	800,000	
Trade debtors	600,000	
Cash	<u>200,000</u>	
	1,600,000	
Less: Current Liabilities	<u>800,000</u>	
Net current assets		<u>800,000</u>

Total Capital employed		<u>3,200,000</u>
Financed by:		
Share capital	2,000,000	
Reserves	<u>600,000</u>	
	2,600,000	
Loan capital	<u>600,000</u>	3,200,000

You are also furnished with the following relevant additional information:

(i) Turnover (Sales)	Shs.8,000,000
(ii) Operating costs	6,000,000
(iii) Interest expense	60,000
(iv) Depreciation	100,000

Required:

Compute the following financial ratios

- (i) Debtors turnover ratio
- (ii) Profit margin
- (iii) Return on total assets employed
- (iv) Current ratio
- (v) Gearing ratio. (15 marks)

- (b) Discuss the role played by the Nairobi Stock Exchange (NSE) to the Kenyan Economy. (15 marks)

Q.2 (a) Mawindo Ltd. has the following capital structure:

Ordinary share capital	100,000
8% preference share capital	50,000
10% debt finance	25,000

Ordinary Shareholders expect a dividend of 10% per annum.

Corporation tax rate is 50%.

Required:

- Compute the weighted Average Cost of Capital. (8 marks)
- (b) State and explain **FOUR** disadvantages to a company of being listed on a stock exchange. (12 marks)
- Q.3 (a) The following information was extracted from the books of ABC Ltd. for the financial period 2008.

	Shs.
Stock of raw materials	60,000
Work-in-progress	20,000
Finished goods stock	100,000
Debtors	170,000
Annual Sales	2,400,000
Cost of production	1,250,000
Annual Cost of Sales	1,000,000
Trade creditors	140,000
Raw material	600,000

Required:

- Computer the working capital cycle. (12 marks)
- (b) What are advantages of investing in shares? (4 marks)
- (c) What are the similarities between debt finance and preference share capital. (4 marks)
- Q.4 (a) State and explain briefly **FOUR** importances of cost of finance. (8 marks)
- (b) Differentiate between the following terms:
- (i) Marginal cost of capital and weighted average cost of capital.
 - (ii) Capital Market and Money market.
 - (iii) Right issue and bonus issue. (12 marks)

Q.5 (a) Bombay Textile Limited is a manufacturer of children garments.
 The finance manager wishes to arrange for overdraft facilities with
 Barclays Bank during the period April to June 2008.

Men are provided with the following information.

(i)	Period	Sales	Purchases	Wages
	Feb	180,000	124,000	12,000
	March	192,000	144,000	14,000
	April	108,000	243,000	11,000
	May	174,000	246,000	10,000
	June	126,000	268,000	15,000

- (ii) 50% of the credit sales are realized in the month following the sales while the remaining 50% is realized in the second month following sales.
- (iii) Creditors are all paid in the following month of purchase, which are all on credit.
- (iv) Wages are paid on 1st of the following month.
- (v) Cash at bank on 1st April is sh.25,000.

Required:

Prepare a cash budget for three months ending 30th June, 2008. (14 marks)

(b) Write short notes on the following:

- (i) Bill of exchange (3 marks)
- (ii) Lease finance (3 marks)