

**MAASAI MARA UNIVERSITY**

**REGULAR UNIVERSITY EXAMINATIONS**

**2015/2016 ACADEMIC YEAR**

**THIRD YEAR FIRST SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS**

**BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 310**

**COURSE TITLE: BUSINESS FINANCE**

**DATE:TUESDAY 10TH MAY 2016 TIME:11.00AM-1.00PM**

**INSTRUCTIONS TO CANDIDATES TIME 2 HOURS**

Answer Question **ONE** and any other **THREE** Questions

*This paper consists of 3 printed pages. Please turn over*

**QUESTION ONE**

a) State the objectives of any firms engaging in business **(3Marks)**

b) i) Explain the advantages of using ordinary share capital as a source of finance **(4Marks)**

ii) Write short notes on the following terms

i) Net present value **(2Marks)**

ii) Internal rate of return **(2Marks)**

iii) Payback period **(2Marks)**

iv) Working capital **(2Marks)**

c) i) Debt finance is a very important source of financing enterprises. Discuss the advantages of using debt finance.  **(5Marks)**

ii) MMMX Company Ltd., has 100000 shares outstanding the current market price of the shares Kshs.15 each. The company expects the net profit of Kshs. 200,000 during the year and it belongs to a rich class for which the appropriate capitalization rate has been estimated to be 20%. The company is considering dividend of Kshs. 2.50 per share for the current year.

Required:

1. If the dividend is paid and **(2Marks)**
2. if the dividend is not paid. **(3Marks)**

**QUESTION TWO**

a) Describe the following terms as used financial management

1. Irredeemable Preference Shares **(2Marks)**
2. Debt finance **(2Marks)**
3. Bills of Exchange **(2Marks)**
4. Agency Theory **(2Marks)**

b) NNON ltd is considering various sources of finance in the process of financing its business. Discuss the advantages of Using a Bill as a Source of finance. **(7Marks)**

**QUESTION THREE**

a) Explain the factors which influence the Cost of Finance **(6Marks)**

b) List the advantages of Payback Period method of investment (**6Marks)**

c) NPV ltd is an all equity firm whose Beta factor is 1.2, the interest rate on T-bills is currently at 8.5% and the market of return is 14.5%. Calculate the cost of equity Kę, for the company. **(3Marks)**

**QUESTION FOUR**

a) List the determinants of working capital **(4Marks)**

b) Discus the various sources of finance **(12Marks)**

**QUESTION FIVE**

a) Explain the importance of working capital to many organizations in Kenya **(8Marks)**

b) Jeremy ltd wishes to expand its out by purchasing a new machine worth 170,000 and installation costs are estimated at Kshs. 40,000. In the 4th year, this machine will call for an overhaul to cost Kshs. 80,000. Its expected inflows are:

Kshs.

Year 1 60,000

Year2 72,650

Year3 35,720

Year4 48,510

Year5 91,630

Year6 83,715

This company can raise finance to purchase machine at 12% interest rate. Compute NPV and advise the management accordingly. **(7Marks)**

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