



MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING, BANKING AND FINANCE

SECOND YEAR FIRST SEMESTER EXAMINATION FOR MODULE II

CERTIFICATE IN BUSINESS MANAGEMENT

CERTIFICATE IN SUPPLY CHAIN MANAGEMENT

BUSINESS FINANCE

DATE: 30/8/2021

TIME: 8:30 – 11:30 AM

Instructions

Answer ALL questions

Show all your working

All questions carry Equal marks

The questions should be answered in English

QUESTION ONE (20 MARKS)

- a) Explain FIVE ways in which business finance is important to a business organization (10 marks)
- b) Explain five factors that the management should consider when choosing a source of finance for a business organization. (10 marks)

QUESTION TWO (20 MARKS)

- a) Explain the managerial functions of a finance manager (10 marks)
- b) Debentures is a type of finance that a business can use to finance its operations. Explain 5 different types of debentures (10 marks)

QUESTION THREE (20 MARKS)

- a) Differentiate between ordinary shares and preference shares (10 marks)
- b) There are numerous objectives that organizations wish to accomplish while carrying out their operations. Explain five objectives of organizations (10 marks)

QUESTION FOUR (20 MARKS)

- a) A business can raise funds through different methods. Explain five sources of funds to business organizations (10 marks)
- b) The following is the capital structure of a firm

Source	Amount (sh)	Proportion
Ordinary share capital (sh 1 each)	300000	50%
Retained earnings	150000	25%
Preference share capital	100000	16.67%
10% Debentures	50000	8.33%
	600000	100%

Corporation tax is 50%

The costs of various sources of capital are;

Source	Cost
Ordinary share capital	15%
Retained earnings	15%
Preference share capital	10%
Debentures (10% less tax element)	5%S

Calculate the weighted average cost of capital (10 marks)

QUESTION FIVE (20 MARKS)

- a) Suppose a company is issuing 12% debentures of sh100 at discount of 5% and the expenses of issue are 2%. Calculate the effective cost of capital (5 marks)
- b) Explain why debt finance is a preferred source of capital (5 marks)
- c) Assume the market price per ordinary share of a company is sh 50 and issue expense per share is sh 5. The dividend per share and growth rate is sh 3 and 5% respectively. Determine the cost of equity (5 marks)
- d) Explain five features of long term sources of funds (5 marks)