



MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

THIRD YEAR SECOND TERM EXAMINATION FOR

DIPLOMA IN ACCOUNTACY

2804/301BF: BUSINESS FINANCE

DATE: 8/6/2021

TIME: 8.30-11.30 AM

INSTRUCTIONS:

The paper contains five questions. Answer all questions.

QUESTION IS COMPULSORY

- a) Explain four functions of merchant banks (8 marks)
- b) The following is the capital structure of lambeka limited as at 31 october 2018. (12 marks)

25,000 ordinary shares each at 100	2,500,000
Reserves	3,500.000
10% debentures	1,000,000
12% loan	3,000,000

The market price for each ordinary share was sh. 125 while dividends per share sh.5. The corporate tax is 30%. Calculate the weighted average cost of capital

QUESTION TWO

- a) Explain 4 features of venture capitals (8 marks)
- b) Explain six factors that may determine the working capital of a firm (12 marks)

QUESTION THREE

- a) Mega limited has borrowed 20,000,000 from a bank with an interest rate of 14% per annum which it tends to invest in a project. The following are the cash inflows from the project.

Year	1	2	3	4	5
Cash in flow	5,000,000	8,000,000	12,000,000	6,000,000	4,000,000

- i. Calculate the Net Present Value at
14%
32%
- ii. Using the above, calculate the internal rate of return using the above.
- iii. Advice management on whether to invest or not. (12 marks)
- b) Explain each of the following ratios in decision making.
- i. Gearing ratio
- ii. Net asset ratio
- iii. Return on Capital employed ratio
- iv. Current ratio (8 marks)

QUESTION FOUR

- a) Mumo intends to invest in a machine for 6 years. The initial cost of the machine is 12,000,000 and he intends to make the following deposits at the beginning of each year.

Year	Amount
1	500,000
2	1,000,000
3	2,500,000
4	2,000,000
5	1,000,000

The bank pays interest on deposit at rate of 8% per annum

Determine the amount he needs to deposit at the beginning of the 6th year for him to buy the machine (8 marks)

b) The following information relates to material X of Bama limited.

Normal usage 100 units per week

Maximum usage 150 units per week

Minimum usage 50 units per week

Reorder level EOQ 500 units

Lead 5-7 weeks

Calculate,

i. Reorder level

ii. Minimum stock level

iii. Maximum stock level

iv. Average stock level

(12 marks)

QUESTION FIVE

a) Explain four functions of financial intermediaries in an economy.

(8 marks)

b) Outline 3 assumptions of **EOQ**

(6 marks)

c) Explain 3 external sources of finance to a business

(6 marks)