



KISII UNIVERSITY
UNIVERSITY EXAMINATIONS

SECOND YEAR EXAMINATION FOR THE AWARD OF THE
BACHELORS DEGREE IN ACCOUNTING AND FINANCING
FIRST SEMESTER 2023/2024
[AUGUST-DECEMBER, 2023]

BCOM 230: BUSINESS FINANCE

STREAM: Y2 S1

TIME: 2 HOURS

DAY: FRIDAY, 9.00 – 11.00 A.M.

DATE: 24/11/2023

INSTRUCTIONS

- 1. Do not write anything on this question paper.***
- 2. Answer Questions ONE and any other THREE Questions***

QUESTION ONE

- Explain the reasons as to why ordinary share capital is attractive despite being risky. (5 Marks)
- Find the sum of money which, if invested now at 5% p.a interest (compound), will be worth £ 10,000 in 10 years' time. (5 Marks)
- Ken is a shareholder in ABC Company and he is expecting to earn interim dividends in the next five months. Explain to him some of the factors that might influence dividends payments as this is the main source of his income. (8 Marks)
- Explain the agency relationship that exist between shareholders and auditors and highlight some of the actions that causes conflict. (7Marks)

QUESTION TWO

- a) Calculate the NPV of project X which initially cost shs 250,000 and will generate the following cash inflows:

Year	Cash Inflows (Shs)
1	90,000
2	80,000
3	70,000
4	60,000
5	50,000

The required rate of return is assumed to be 10%.

Required

According to NPV method accept or reject rule advice the management whether to invest in this project or not. (5 Marks)

- b) State and explain five ways in which firm managers can use financial ratios. (10Marks)

QUESTION THREE

- a) Define what is capital budgeting and explain its importance to a business entity. (5 Marks)

- b) A business undertakes high-risk investments and requires a minimum expected rate of return of 17% on its investment. A proposed capital investment has the following expected cash flows.

Year	£
0	(50,000)
1	18,000
2	25,000
3	20,000
4	10,000

Required

- i) Calculate the NPV of the project if the cost of capital is 15%. (3 Marks)
- ii) Calculate the NPV of the project if the cost of capital is 20%. (3Marks)

iii) Use the NPVs you have calculated to estimate the IRR of the project. (3 Marks)

iv) Recommend on financial grounds alone, whether this project should go ahead. (1 Marks)

QUESTION FOUR

a) Clearly outlines the requirement that must be met by a company which is intending to be listed in the Nairobi Securities Exchange. (9 Marks)

b) Briefly explain the various modes of paying dividends to shareholders. (6 Marks)

QUESTION FIVE

a) Distinguish between Marginal cost of capital (MCC) and weighted average cost of capital (WACC). (2 Marks)

b) Company XYZ pays a dividend of 10% on its Sh.60 par value ordinary shares. This company uses a discount rate of 15%. Assuming no growth, compute the value of its ordinary share if there's growth of 5%, what would be the value of this company's ordinary shares. (5 Marks)

b) write notes on the following:

i) Venture capital (4 Marks)

ii) Internal and external sources (4 Marks)