



KISII UNIVERSITY
UNIVERSITY EXAMINATIONS
FIRST YEAR EXAMINATION FOR THE AWARD OF THE
DIPLOMA IN BUSINESS ADMINISTRATION
SECOND SEMESTER 2022/2023
(SEPTEMBER - DECEMBER, 2022)

DBAD: 0131 BUSINESS FINANCE

STREAM: Y1 S2

TIME: 2 HOURS

DAY: TUESDAY, 3:00 P.M – 5:00 P.M

DATE: 20/12/2022

INSTRUCTIONS:

- 1. Do not write anything on this question paper.***
- 2. Answer Question ONE (Compulsory) and any other THREE questions.***

QUESTION ONE

- Clearly bring out the meaning of business finance (3marks)
- Highlight the reasons why business finance is important to the society (10marks)
- Explain why commercial banks prefer to lend short term loans (12marks)

QUESTION TWO

- Differentiate between debt and share capital (10marks)
- State the factors that influence the cost of finance (5marks)

QUESTION THREE

Kindu enterprises limited had the following structure as at 31/12/2022

Ordinary shares

200000 @sh 20 each 4000000

10% preference shares 1000000

14% debentures 3000000

Total capital employed 8000000

The shares of this company sell at 20sh each. It is expected that the company will pay next year a dividend of 2sh per share will grow at 7% forever. Assume a 50% tax rate. Required

- a) Compute the weighted average cost of capital based on the existing capital structure (7marks)
- b) Computer the new weighed average cost of capital if the company raises additional ksh. 2000000 debts issuing 15% debentures this would result in increasing the expected dividends to ksh. 3 and have a growth rate unchanged. But the price of the share falls to ksh. 15 per share (8marks)

QUESTION FOUR

- a) A project has the following characteristics

Year	cash flow
Yo	(950000)
Y1	300000
Y2	470000
Y3	480000
Y4	320000

Required. If the discount rate is 20%, should we accept the project (7marks)

- b) Explain the advantage of payback period (8marks)

QUESTION FIVE

- a) Discuss the types of capital budgeting decisions (8marks)
- b) Highlight on the objectives of financial management (7marks)