



KISII UNIVERSITY
UNIVERSITY EXAMINATIONS

**THIRD YEAR EXAMINATION FOR THE AWARD OF THE DEGREE OF
BACHELOR OF SCIENCE IN AGRICULTURAL EDUCATION AND EXTENSION
SECOND SEMESTER, 2023/2024
(JANUARY-APRIL, 2024)**

AGBM 312: BUSINESS FINANCE

STREAM: Y3 S2

TIME: 2 HOURS

DAY: MONDAY, 3:00 – 5:00 P.M.

DATE: 15/04/2024

INSTRUCTIONS

1. *Do not write anything on this question paper.*
2. *Section A is compulsory and answer any TWO questions in Section B.*

SECTION A- (40MARKS)-COMPULSORY

1.a) You are have been contacted as a Financial Adviser in your company and you have been authorized to spend **kshs.1,500, 000** on two mutually exclusive projects to be undertaken. The two projects you are considering, have the following characteristics.

<u>Year</u>	<u>Project A</u>	<u>Project B</u>
0	(1,5000,000)	(1,500,000)
1	975,000	525,000
2	450,000	525,000
3	450,000	525,000
4	150,000	525,000

The rate of discount is **12%**

Required:

Advice the company on the best project based on:

- Payback period method
- NPV method

- IRR method

(30 marks)

b) Explain **Five** functions of Commercial Bank to the Government.

(10marks)

SECTION B – 30 Marks (Answer any TWO questions)

2. The following income statement and balance sheets were extracted from the books of KK Ltd.

Balance sheet as at 31 May

	2018	2019
	shs. Million	Shs. Million
Assets		
Non-current assets		
Property plant and equipment	780	812
Cumulative depreciation	<u>(485)</u>	<u>(546)</u>
	295	266
Current asset		
Inventory	118	154
Accounts receivable	96	167
Cash in hand	<u>12</u>	<u>~</u>
	<u>226</u>	<u>321</u>
Total assets	<u>521</u>	<u>587</u>
Equity and liabilities		
Capital and reserves		
Ordinary share capital	40	40
Retained earnings	<u>71</u>	<u>99</u>
	<u>111</u>	<u>139</u>
Non – current liabilities		
12% debentures	200	180
Current liabilities		
Accounts payable	179	210
Bank overdraft	~	23
Proposed dividend	17	17
Corporation tax	<u>14</u>	<u>18</u>
	210	268
Total equity and liability	521	587

Income statement for the year ended 31 May 2019

	Shs. M
Sales	1,284
Cost of sales	<u>(708)</u>
Gross profit	578

Operating expenses	<u>488</u>
Operating profit	88
Interest payable	<u>(23)</u>
Net profit	65
Corporation tax	(20)
Proposed dividend	<u>(17)</u>
Retained profit	28

Required:

Compute Liquidity Ratios and Profitability Ratios

(15Marks)

3.) Company XYZ, a geared company has financed its activities as follows;

Ordinary shares – 100,000 shares @ sh. 10

40,000 8% debentures (par value shs. 10)

50,000 10% preference share of shs. 10

Also the following information is provided;

- Ordinary shares are currently quoted at sh. 25 and a dividend of shs.2 per share is expected by shareholder. These dividends have been growing at 3% p.a preference shares currently sell at shs. 15. Tax = 40%.

Required

Compute the weighted average cost of capital (WACC) using the weighting approach.

(15marks)

4 a) Highlight **five** key factors that affect the valuation of share prices in the securities exchange market.

(10marks)

b) Mr. Ken Omari has found wants to invest Kshs. 100,000 with institution that will earn him an interest rate of 12% Compounded quarterly. Determine the amount of money that he will in his account if he deposits the money for a period of three years.

(5marks)

5 a) Explain **five** tools that are used by central bank to control credit in the economy.

(10marks)

b) Highlight **five** significance of secondary markets in the economy.

(5marks)