



# **MAASAI MARA UNIVERSITY**

**REGULAR UNIVERSITY EXAMINATIONS  
2021 /2022 ACADEMIC YEAR  
THIRD YEAR FIRST SEMESTER**

**SCHOOL OF BUSINESS & ECONOMICS  
BACHELOR OF COMMERCE**

**COURSE CODE: BCM 3113**

**COURSE TITLE: BUSINESS FINANCE**

**DATE: 31<sup>ST</sup> MARCH, 2022**

**TIME: 1430-1630**

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**INSTRUCTIONS TO CANDIDATES**

Answer question **ONE** and any other **THREE** questions

*This paper consists of 4 printed pages. Please turn over*

### QUESTION ONE (25 MARKS)

- a) Explain any FOUR actions by management and shareholders that could be harmful to the interest of debt holders **(4 Marks)**
- b) Discuss any FOUR restrictive covenants that debt holders may use to protect their wealth from management and shareholders **(6 Marks)**
- c) Explain FIVE factors taken into account by a businessman in making choice between financing short term and long term sources **(5 Marks)**
- d) Describe the following terms as used in Stock market **(5 Marks)**
  - a. Stock market efficiency
  - b. Stock Market Index
  - c. Over the Counter Market
  - d. Underwriting
  - e. Prospectus
- e) An investor borrows Shs 500,000 at 15% to be repaid in the next six years. Show the amortization schedule that repays the loan fully in the six years. **(5 marks)**

### QUESTION TWO (15 MARKS)

- a) Describe FIVE reasons why assets would go for valuation **(5 Marks)**
- b) Sale and lease back is a common technique of financing the activities of firms with financial difficulties. Define the term sale and lease back clearly stating its advantages and disadvantages **(10 Marks)**

### QUESTION THREE (15 MARKS)

- a) State and briefly explain any Five ways of issuing new shares to new shareholders **(5Marks)**
- b) Pick limited has the following capital structure which is considered optima

	Sh 000
Debt(par @sh 100)	250,000
Preferred stock (par sh 100)	150,000
Common stock (par @sh 100)	600,000

Investors expect earnings and dividends to grow at constant rate of 9%.the company has just paid dividend of sh3.6per share and its stock currently sells at 60 per share. Treasury bonds yield 11% and the return on market is 14%.

Picks Beta is 1.51. Newpreferred stock can be sold at sh 100 per share with a dividend of sh 11 per share and flotation cost of sh 5 per share. The company's tax rate is 30% and it pays all its earnings as dividend .12% Debentures with a maturity of 10 years can be sold at sh 92 per debenture

REQUIRED

The weighted average cost of capital using the market value weight  
**(10 Marks)**

#### QUESTION FOUR (15 MARKS)

4) Find the interest rates on each of the following:

- a) You borrow sh 70,000 and promise to pay back sh 78,000 at the end of one year **(3Marks)**
- b) You lend 70,000 and receive a promise to be paid 75,000 at the end of one year **(3 Marks)**

4b) Given the following information of Jabs Ltd

YEAR	PROJECT A	PROJECT B.
1	3,000,000	6,000,000
2	1,000,000	5,000,000
3	4,000,000	4,000,000
4	5,000,000	3,000,000
5	6,000,000	1,000,000

Additional information

- 1) The above cash flow has been stated on after tax basis
- 2) Each of the project will cost Ksh.10, 000,000 at commencement.
- 3) The company intends to raise this finance through an issue of debentures at interest rate of 10% per annum.

**Required**

Advice the management of Jabs ltd on which of the projects to undertake using

- I. Payback period **( 2Marks)**

II. NPV (4 Marks)

III. Profitability Index (3 marks)

**QUESTION FIVE (15 MARKS)**

a) Calculate the price of a semiannual coupon bond with a face value of \$2000, a 10% coupon rate, and 15 years remaining until maturity given that the required return is 12%.

**(5 marks)**

b) Mapesa has Sh.500, 000 that he can deposit in any of three savings accounts for a 3 years period. Bank I compounds interest on an annual basis, Bank II compounds interest twice each year, and Bank III compounds interest each quarters. All the three Banks have a stated annual interest rate of 4%.

i) Compute the amount in each bank account at the end of 2 years. **(4 Marks)**

ii) What is the effective annual rate (EAR) that is earned from each bank?

**(2 marks)**

iii) Advise Tom where to deposit his money?

**(2 marks)**

iv) Bank IV is different from the others only in the sense that compounding is done continuously. What would be the amount at end of 3 years if it was deposited in Bank IV.

**(2 marks)**

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