MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS
2017/2018 ACADEMIC YEAR
THIRD YEAR FIRST SEMESTER

SCHOOL OF BUSINESS AND ECONOMICS
BACHELOR SCIENCE IN PROJECT PLANNING AND MANAGEMENT

COURSE CODE: BBM 310
COURSE TITLE: BUSINESS FINANCE

DATE: 23RD APRIL 2018 **TIME: 1100 – 1300 HRS**

INSTRUCTIONS TO CANDIDATES

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

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

QUESTION ONE (15 MARKS)

Company XY Ltd can invest in one of the following two projects A and B which requires an initial cash outlay OF Shs 1,000,000 and which pay an interest rate of 10% on this money. This projects will generate the following cash inflows:

Year	Project A	Project B
	Shs	Shs
1	500,000	600,000
2	40,000	160,000
3	100,000	40,000
4	600,000	500,000
5	160,000	100,000

REQUIRED: using

1. Payback period method **(5 marks)**
2. NPV method **(5 marks)**
3. IRR method **(10 marks)**
4. Profitability index method **(5 marks)**

Advice the management which one of the two projects they should invest into.

QUESTION TWO (15 MARKS)

a) Highlight the specific costs paid by a firm in obtaining debt finance.

(4 marks)

b) Information obtained from the books of Carrefour Supermarkets Ltd indicate that:

i. This company sold 10,000 ordinary shares at Shs 100 with a floatation cost of Shs 20 each.
ii. It sold 5,000 preference shares of Shs 100 at Shs 150 which carry a dividend of 16%.
iii. It sold 5,000 Shs 100 10% debentures at Shs 80.
iv. It sold 10,000 Shs 50 12% debentures with issue cost of Shs 15.

This company hopes to earn a return on the above finance of 18%

REQUIRED

Compute the cost of ordinary share capital assuming that there will be no retention. Tax = 40% **(11 marks)**

QUESTION THREE (15 MARKS)

a) A 10 year bond of 1,000 has an annual rate of interest of 12%. The interest is paid half yearly. What is the value of the bond if the required rate of return is:

i. 12% **(4 marks)**
ii. 16% **(4 marks)**

b) The government is proposing to sell a 5 year bond of RS 1,000 at 8% rate of interest per annum. The bond amount will be amortized equally over its life. If an investor has a minimum required rate of return of 7%, what is the bond'spresent value for him? **(3 marks)**

c) Suppose an investor is considering the purchase of a five year RS 1,000 par value bond, bearing a nominal rate of interest of 7% per annum. The investors required rate of return is 8%. What should he be willing to pay now to purchase the bond if it matures at par? **(4 marks)**

QUESTION FOUR (15 MARKS)

a) State and explain any 5 financial instruments used for raising equity and debt securities. **(10 marks)**

b) Highlight the advantages mutual funds offer to investors. **(5 marks)**

QUESTION FIVE (15 MARKS)

a) Define private placement **(1 mark)**

b) What are the reasons for private placement? **(4 marks)**

c) State and explain any 5 concepts of valuing a bond **(10 marks)**

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