



# MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY

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**University Examinations 2024/2025**  
SECOND YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF  
BACHELOR OF BUSINESS ADMINISTRATION

**BFC 3277: BUSINESS FINANCE**

**DATE: JANUARY 2025**

**TIME: 2 HOURS**

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**INSTRUCTIONS:** Answer question *one* and any other *two* questions

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**QUESTION ONE (30 MARKS)**

- a) Analytically, distinguish between debt and equity capital. (10 Marks)
- b) In a profit making organization context, discuss the problems that might exist in the relationships between:
- (i) Shareholders and managers (4 Marks)
- (ii) Shareholders and creditors (4 Marks)
- c) Gatareri Co. Limited wishes to expand its output by purchasing a new machine worth 170,000 and installation costs are estimated at 40,000/=. In the 4<sup>th</sup> year, this machine will call for an overhaul to cost 80,000/=. Its expected inflows are:

Shs.

Year	1	60,000
Year	2	72,650
Year	3	35,720
Year	4	48,510

Year 5 91,630

Year 6 83,715

This company can raise finance to purchase machine at 12% interest rate. Compute NPV, PI and payback period and advise management accordingly. (12 Marks)

**QUESTION TWO (20 MARKS)**

a) Explain three methods of handling risk in uncertainty capital budgeting apart from sensitivity analysis (6 marks)

b) Assume a project costs sh. 100,000 and will generate the following cash inflows

Cash inflows Shs.

Year 1 15,000

Year 2 35,000

Year 3 15,000

Year 4 30,000

Year 5 40,000

Calculate the payback period (PBP) (5 marks)

c) A project cost shs. 18,000 and it is expected to generate cash inflows of shs. 9,000, 8,000 and 7,000 at the end of each year for the next 3 years. Assume a 20% discount rate. Calculate the internal rate of return (IRR) (9 marks)

**QUESTION THREE (20 MARKS)**

a) Discuss disadvantages of plastic money (10 marks)

b) Explain differences between ordinary shares and preference shares (10 marks)

**QUESTION FOUR (20 MARKS)**

a) Outline five differences between debentures and retained earnings as sources of business finance (10 marks)

b) Explain five factors which influences the choice of finance for a business (10 marks)

**QUESTION FIVE (20 MARKS)**

- a) Highlight five advantages of internal financing to an organization (5 marks)
- b) Kesta limited intends to borrow ksh: 4,000,000 to finance either project x or project y. the following are the expected net cash inflows for each project

Net cash inflows

Year	Project x	Project y
1	1,500,000	2,000,000
2	1,000,000	1,100,000
3	2,400,000	9,000,000
4	1,200,000	1,500,000

- i) Calculate the payback period for each project (10 marks)
- ii) Advise the management on the project to invest (5 marks)