



FACULTY OF BUSINESS MANAGEMENT
END OF SEMESTER EXAMINATIONS - APRIL 2025

PROGRAMME: BBA, DBA

YEAR/SEM: YEAR 2/SEMESTER 1

COURSE CODE: FIN 2103

NAME: BUSINESS FINANCE

DATE: 2025-04-22

TIME: 2:00-5:00PM

INSTRUCTIONS TO CANDIDATES:

1. Read the instructions very carefully
2. The time allowed for this examination is STRICTLY three hours
3. Read each question carefully before you attempt and allocate your time equally between all the Sections
4. Write clearly and legibly. Illegible handwriting cannot be marked
5. Number the questions you have attempted
6. Use of appropriate workplace examples to illustrate your answers will earn you bonus marks
7. Any examination malpractice detected will lead to automatic disqualification.

DO NOT WRITE ANYTHING ON THE QUESTION PAPER

Section A QUESTION ONE IS COMPULSORY

Question 1:

USE THE FOLLOWING CASE STUDY TO ANSWER THE QUESTIONS

Business financial ethics are significant to all companies. It relates to not only the benefits and the reputation of one company, but the benefit of consumers. Whether a company can grow up and become flourishing or not sometimes is determined by business financial ethics. A presentative of business financial ethics in real-world is McDonaldâ??s.

1. In 1972, Ray Kroc, the companyâ??s founder made a rare donation of \$250,000 to Nixonâ??s reelection campaign and in return got a favorable legislation that allowed companies such as McDonaldâ??s to pay teenage employees 20 percent less than federal minimum wages. the basic rights of teenage employees cannot be guaranteed.

2. McDonaldâ??s also doesnâ??t allow employees to unionize, and in one instance where workers at St. Hubert Quebec did form a union, the company closed down the unit promptly.

â??- employeesâ?? right of defending their benefits and claims lost.

3. Activists of London Greenpeace alleged that McDonaldâ??s promoted Third World poverty, sold unhealthy food, exploited workers and children, tortured animals, and destroyed the Amazon rain forest.

â??- lots of unethical behavior lead McDonaldâ??s to be sued.

Reputation is a companyâ??s biggest asset and bad business financial ethics invariably result in loss of reputation and credibility. Yet many large corporate also find themselves caught red handed indulging in shady conduct. Read on for some real life examples of bad business financial ethics.

Very often, a companyâ??s relationship with its stakeholders defines its ethical values. McDonaldâ??s, despite its global success, remains the target of a vitriolic public backlash owing to what many perceive as bad business financial ethics in its relationships with employees and other stakeholders.

This bad business financial ethics example by McDonaldâ??s is what is known as the â??McDonaldâ??s Legislationâ?• in popular parlance. In 1972, Ray Kroc, the companyâ??s founder made a rare donation of \$250,000 to Nixonâ??s reelection campaign and in return got a favorable legislation that allowed companies such as McDonaldâ??s to pay teenage employees 20 percent less than federal minimum wages. Most observers consider this a typical case of corporate influence on lawmakers to enact legislation that serve their selfish ends and harm society.

McDonaldâ??s also doesnâ??t allow employees to unionize, and in one instance where workers at St. Hubert Quebec did form a union, the company closed down the unit promptly.

The McLibel case ranks as McDonaldâ??s most disastrous cases of bad business financial ethics and spawned tons of negative publicity. Between 1986 and 1990, activists of London Greenpeace distributed pamphlets with the title â??Whatâ??s Wrong with McDonaldâ??s? Everything They Donâ??t Want You to Knowâ?• and the wordings â??McDollars, McGreedy, McCancer, McMurder, McProfits, McGarbage,â?• alleging that McDonaldâ??s promoted Third World poverty, sold unhealthy food, exploited workers and children, tortured animals, and destroyed the Amazon rain forest. McDonaldâ??s sued the group for libel. The court, however, held McDonaldâ??s guilty of exploiting children through advertising tactics, serving dangerously unhealthy food, paying workers low wages, indulging in union busting activities worldwide, and ignoring animal cruelty perpetrated by its suppliers.

REQUIRED:

1. What were some of the 5 (five) financial mishaps witnessed by the above management?
(15 marks)
2. As a financial manager how would you help? (5 mks)
3. What type of business was this and various sources of finance that were available to them?
(10 marks)
4. As a future investor what advise would you give the management of the above company.
(10 marks)

Section B ANSWER ANY THREE QUESTIONS

Question 1:

Write brief notes on the following

- i. retained earnings
- ii. Debt capital
- iii. Equity capital
- iv. Crowdfunding (each 5 mks)

Question 2:

- (i) Differentiate between profit maximization decision criteria vis a vis wealth creation. (10 mks)
- (ii) What are the advantage and disadvantage of wealth maximization criteria? Name at least 2 in each. (10 mks)

Question 3:

- a. Give 5 comparisons between equity and debt (10 mks)
- b. Explain five ways that a company may issue shares to the public. (10 mks)

Question 4:

- i. Differentiate between a business risk and financial risk of any firm of your choice (10mks)
- ii. Explain the factors that affect the cost of capital in a non governmental organisation. (10 mks)

Question 5:

Study the following financial statements of two companies and then answer the questions which follow. Both companies are stores selling carpets and other floor coverings. The values shown are in Â£000s.

	<i>Spreadlight Ltd</i> £000	<i>Easylawn Ltd</i> £000
Income Statements		
Sales	2,500	1,600
Less Cost of goods sold		
Opening inventory	190	110
Add Purchases	<u>2,100</u>	<u>1,220</u>
	2,290	1,330
Less Closing inventory	<u>(220)</u>	<u>(160)</u>
	(2,070)	(1,170)
Gross profit	430	430
Less Expenses		
Wages and salaries	180	130
Directors' remuneration	70	120
Other expenses	<u>14</u>	<u>10</u>
	(264)	(260)
Net profit	166	170
Balance sheets		
<i>Non-current assets</i>		
Equipment at cost	200	50
Less Depreciation to date	<u>(80)</u>	<u>(20)</u>
	120	30
Vans	64	48
Less Depreciation to date	<u>(26)</u>	<u>(16)</u>
	38	32
	<u>158</u>	<u>62</u>
<i>Current assets</i>		
Inventory	220	160
Accounts receivable	104	29
Bank	<u>75</u>	<u>10</u>
	399	199
Total assets	557	261
<i>Less Current liabilities</i>		
Accounts payable	(189)	(38)
Net assets	<u>368</u>	<u>223</u>
<i>Equity</i>		
Issued share capital	200	100
Reserves		
General reserve	68	35
Retained profits	<u>100</u>	<u>88</u>
	168	123
Total equity	<u>368</u>	<u>223</u>

Notes:

Spreadlight paid a dividend of £140,000 during the year and transferred £30,000 to a general reserve of the year end. Easylawn paid a dividend of £112,000 during the year and transferred £30,000 to a general reserve of the year end. The retained profits brought forward at the start of the year were: Spreadlight £104,000; Easylawn £60,000.

YOU ARE REQUIRED TO CALCULATE THE FOLLOWING RATIOS AND COMMENT ON THEM:

- a) Liquidity ratios 4marks
- b) Profitability ratios 4 marks
- c) Gearing ratios 4 marks
- d) Efficiency ratios 4 marks
- e) Investment ratios 4 marks

Question 6:

With examples, explain the following terms associated with debt securities

- i. Face value/par value
- ii. Coupon rates
- iii. Maturities
- iv. Interest payments
- v. Redemption

(each 4mks)