PAN AFRICA CHRISTIAN UNIVERSITY

END OF TERM EXAMINATION

BUS3213: BUSINESS FINANCE

MONDAY, MARCH 26, 2012

0800HRS – 1100HRS

INSTRUCTIONS

- This Exam Script has **FIVE (5)** Questions.
- Answer **Question 1, which is compulsory**, and **any other THREE** questions of your choice.
- Write your **student number** on the Answer Booklet.
- Read all questions carefully before attempting.

BUS3213:BUSINESS FINANCE(DAY)

INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER THREE QUESTIONS.

Question 1

a) Discuss the limitation of ratio analysis **[7 marks]**

b) An investor invested kshs 40,000 for 8 years at 9 % interest rate where compounding is done on monthly basis. How much will this amount be at the end of the 8 years? **[3 marks]**

c) An investor deposited kshs 120,000 every year at the beginning of the year for 10 years. What would be the amount be at the end of the period if the interest rate is 27 % per annum? **[2 marks]**

d) Discuss the following sources of finance in each case giving 3 advantages and 3 disadvantages

i) Ordinary shares

ii) Trade credit

iii) Bank overdraft

iv) Provision for taxation

v) **[8 marks]**

Question two

a) Discuss the role of Nairobi security exchange in the economic development of Kenya? **[7 marks]**

b) An investor is to receive kshs. 1,000,000 at the end of 10 years. If the discount rate is 12 % what is the present value of this amount if interest is compounded

i) annually

ii) Quarterly

iii) Continuously **[6 marks]**

c) Describe the main factors to consider in the choice of a finance source? **[7 marks]**

Question 3

a) Discuss the dangers of inadequate working capital by a business enterprise? **[10 marks]**

b) Discuss the advantages cash budgeting? **[10 marks]**

Question 4

a) Discuss the role of a finance manager in a business enterprise? **[12 marks]**

b) Explain why business pursues profit maximisation as a main business objective than all the other business finance objectives? **[8 marks]**

Question 5

a) A project with a cash outlay of 8 million is expected to have the following cash flows for a period of 8 years.

Years	1	2	3	4	5	6	7	8
Cash flows	0.8 m	0.8 m	0.6 m	0.6 m	0.6 m	0.6 m	0.6 m	0.4 m

If the discount rate is 12 % find the project net present value? **[10 marks]**

b) A firm has the following capital structure and after tax costs for the different sources of funds used.

Source of funds	Amounts	after tax cost
Debt	500,000	5%
Preference shares	200,000	10%
Retained earnings	500,000	11%
Ordinary shares	800,000	12%

Calculate the weighted average cost of capital **[10 marks]**