



PAN AFRICA CHRISTIAN UNIVERSITY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

SEPTEMBER- DECEMBER 2025

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS

COURSE CODE: BUS3213 | BCM202 | BIT302

COURSE TITLE: BUSINESS FINANCE (ONLINE)

EXAM DATE:

TIME:

INSTRUCTIONS

- This examination script consists of **Six (6)** questions.
- Answer question **ONE** and ANY other **three** Questions.
- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.

Question One (Compulsory)

(15

marks)

1. (15 marks) Discuss the importance of confidentiality in business.

a. While preparing a financial plan for any business unit, certain aspects should be kept in

view so as to ensure the success of such exercise in meeting the organizational

objectives. State and explain these aspects. (5

marks)

- b. Explain **five** determinants of capital structure of a firm using suitable examples. (10 marks)

Question Two (15 marks)

- a. MAPESA company wants to raise further finance from the following sources:
- i. To issue 500,000 ordinary shares of shs.10.00 each at shs. 15.00 each.
 - ii. To issue 600,000 10% preference shares of shs. 10.00 each at shs.12.00 each
 - iii. To issue 40,000 15% debentures of shs. 100.00 at shs.90.00
 - iv. To raise medium term loan of shs. 5,000,000 from financial institutions at an interest rate of 20% p.a.
 - v. the company will pay an annual dividend to ordinary shareholders of 14% and a corporate tax of 50%

Find the average cost of additional finance. (10 Marks)

- b. Explain the limitation of WACC as a discounting rate (5 marks)

Question Three (15 marks)

- a. Discuss the term financial intermediation using a suitable example. (2 marks)
- b. Identify any **three** services that financial intermediaries provide. (3 marks)
- c. Explain **five** forms of agency relationships in a firm giving relevant examples

(10 marks)

Question Four**(15****marks)**

A working capital policy of any business is critical to its viability as a going concern. The board

of directors would ignore the information of such a policy to its great disadvantage.

The finance director of Watu Limited is formulating the company's capital policy for next year.

Sales have been projected at Sh.240 million next year. Three alternative policies are under consideration as follows:

1. Maintain current asset level at 40 per cent of projected sales.
2. Maintain current asset level at 50 per cent of projected sales.
3. Maintain current asset level at 60 percent of projected sales.

Required:

Discuss the expected impact of policies (1) and (3). (15 marks)

Question Five**(15****marks)**

- i. Charles has secured a seven year contract with a football club where the contract fee per annum is Kshs. 7,200,000. The cost of capital is 18%. Compute the present value of the contract. (5 marks)
- ii. The following cash flows are from a 12 year project. The cost of capital is 10%. Calculate the present value of the project. (10 marks)

Year	Cash flow
1-5	Shs. 4,500
6-8	Shs. 6,000
9-12	Shs. 5,200

Question six

(15 marks)

- a. Explain **five** ways in which knowledge of business finance may be applied in business. (10 marks)
- b. Discuss **five** advantages of equity finance as a source of finance in corporate business. (5 marks)