PAN AFRICA CHRISTIAN UNIVERSITY

BACHELOR OF COMMERCE/BUSINESS LEADERSHIP

BACHELOR OF BUSINESS INFORMATION TECHNOLOGY

END OF TERM EXAMINATION (MAY-JULY 2016)

CAMPUS: ROYSAMBU-EVENING

DEPARTMENT: BUSINESS

COURSE CODE: BCM202|BUS3213

COURSE TITLE: BUSINESS FINANCE

EXAM DATE: .FRIDAY 5th, AUGUST 2016

TIME: 5.30PM-8.30PM

INSTRUCTIONS

- This exam script consists of **six (6)** questions.
- Question **one** is compulsory, answer any other **Four** questions
- Write your **student number** on the answer booklet provided.
- Read the questions carefully before attempting

QUESTION ONE

a. Discuss the following agency relationships,
   i. Shareholders (principals) and Management (agents) (5 Marks)
   ii. Top Management (principals) and low level management (agents). (5 Marks)

b. Explain seven classifications of investments (14 Marks)

c. Discuss five goals of the firm (10 Marks)

d. Calculate the amount an investor would have to deposit at the end of each year at an interest rate of 6%, if the investor wishes to accumulate a sum of 10,000 Kenya shillings in 5 years time. (6 Marks)

QUESTION TWO

a. Discuss the four sources of long term capital available to the firm. (8 Marks)

b. The common shares of a company currently sells at 120 Kenya shillings. The company has been paying constant dividends of 4 Kshs per share and this pattern of dividends is expected to continue indefinitely. Calculate the cost of retained earnings. (7 Marks)

QUESTION THREE

The following data have been gathered in respect to a project that is being considered for investment.

Purchase price	Kshs 9,500,000
Installation cost	Kshs 330,000
Salvage value	Kshs 570,000
Incremental profit before depreciation and tax	Kshs 2,800,000
Economic life	10 years
Corporate tax rate	30%
Additional working capital	20% of purchase price

Required:

Determine the Net outlay and the cash flows associated with the projects (15 Marks)

QUESTION FOUR

a. Discuss five investment appraisal techniques. (10 Marks)

b. You are considering investing in a savings bond that will pay 15,000 Kenya shillings in ten years. If the competitive market interest rate is fixed at 6% per year. What is the bond worth today? (5 Marks).

QUESTION FIVE

A company is considering two projects whose cash flows are as below

Year	Project A	Project B
0	(198)	(280)
1	100	160
2	140	120
3		60

a. Calculate NPV of the project assuming the cost of capital is 10% (10 Marks)

b. Which projects would be recommended? If they were

   i. Mutually exclusive (2 Marks)

   ii. Independent (3 Marks)

QUESTION SIX

a. The capital structure of XYZ as at end of its financial year and the specific cost of capital are as shown below.

Source of capital	Amount (Kshs.Million)	Before tax cost
Long term debt	10	16%
Preference shares	6	14%
Common shares	12	24%
Retained earnings	2	24%

The corporate tax rate is 40%;

Required:

i. Compute the Weighted average cost of capital. (10 Marks)

b. Explain two responsibilities of the finance staff in an organization. (5 Marks)