PAN AFRICA CHRISTIAN UNIVERSITY

BACHELORS OF COMMERCE

END OF TERM EXAMINATION

DEPARTMENT: BUSINESS

COURSE CODE: BCM 202

COURSE TITLE: BUSINESS FINANCE

EXAM DATE: 3rd APRIL 2017

TIME:

DAY- ROYSAMBU

INSTRUCTIONS

- This exam script has **SIX questions**
- Read all questions carefully before attempting.
- Question one is compulsory , answer any other questions
- Write your **student number** on the answer booklet provided.

Question one

a. Explain the following agency relationships:

(i) Shareholders (principals) and debt holders (agents**). (5 marks)**

(ii) Shareholders (principals) and management (agents). (**5marks)**

b. The common shares of a company currently sell at 20 Kshs. The company paid dividend of 1 Kshs. Per share last year and the dividend are expected to grow at a constant rate of 5 % indefinitely. A floatation cost of 10% of the market price must be incurred in the issue of a new share.

Required:

I) calculate the cost of internal equity **(5 marks)**

Ii) Calculate the cost of external equity **(5 marks)**

c. Explain **five** investment appraisal techniques **(10 marks)**

d. Discuss **four** sources of longtime capital available to the firm. **(8 marks)**

e.Outline **two** goals of the firm. **(2 marks)**

Question two

a. Explain **five** main duties of a financial manager. **(5 marks)**

b. Discuss **five** factors that influence capital structure decisions. **(10 marks)**

Question three

Company as at the end of its financial year and the specific cost of capital are as shown below;

Source of capital	Amount	Before tax cost
Long term debt	10,000,000	16%
Preference shares	6,000,000	14%
Common shares	12,000,000	24%
Retained earnings	2,000,000	24%
Total	30,000,000	

The corporate tax rate is 40%

Required: compute weighted average cost of capital **(15 marks)**

Question four

XYZ Company intends to invest into divisible projects whose cash flows are as shown below.

Year	Cashflows	Cashflows
	A	B
0	(20)	(40)
1	(40)	(20)
2	(60)	0
3	200	120

The cost of capital is 12%. The cash flow occur in exactly 12 months interval beginning in year 0.

Required:

i. Calculate the net present value of project A and B**. (7 marks)**
ii. Calculate the payback period of project A and B. **(6 marks)**
iii. Rank the projects using net present value and payback period methods calculated above .**(2marks)**

Question five

The following information was extracted from the books of XYZ limited.

XYZ Ltd

Profit and loss account

For the year ended 31st December year 1

Cash sales

Cash sales		300,000
Credit sales		600,000
Total sales		900,000
Less Cost of sales		
Opening stock	210,000	
Purchases	660,000	
	870,000	
Less closing stock	(150,000)	(720,000)
Gross profit		180,000
Less Expenses		
Depreciation	13,100	
Directors emoluments	15,000	
General expenses	20,900	
Interest on Loan	4,000	(53,000)
Net profit		127,000
Less corporation tax @50%		(63,500)
Net profit after tax		63,500

a) Required: Compute the following ratios

i. Gross profit margin **(2 marks)**

ii. Net profit margin **(2 marks)**

iii. Operating ratio (**3 Marks)**

b) Explain **four** advantages of using ratio analysis **(8 marks)**

Question six

a. Explain **four** significances of use of cost of capital by finance manager. **(4marks)**

b.A company is considering two projects whose cashflows are as below

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

Calculate NPV of the project assuming the cost of capital is 10% (6 Marks)

Which projects would be recommended? If they were

i. Mutually exclusive (2 Marks)

ii. Independent (3 Marks)