PAN AFRICA CHRISTIAN UNIVERSITY

SCHOOL OF LEADERSHIP, BUSINESS & TECHNOLOGY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

BACHELOR OF COMMERCE

BACHELOR OF BUSINESS LEADERSHIP

BACHELOR OF BUSINESS & INFORMATION TECHNOLOGY

MAY – AUGUST 2019

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS STUDIES

COURSE CODE: BUS3213|BCM202|BIT302

COURSE TITLE: BUSINESS FINANCE

EXAM DATE:THURSDAY 15TH AUGUST 2019

TIME: 2:00PM-4:00PM

INSTRUCTIONS

- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.
- This examination script consists of **Six(6)** questions.
- Answer question **ONE** and ANY other **THREE** Questions
- *ALL PAC University's examination rules and regulations apply*

QUESTION ONE: COMPULSORY

a) Explain the following terms:
   i) Diversification (4 Marks)
   ii) Annuities (4 Marks)
   iii) Opportunity cost of capital (4 Marks)

b) Explain the conflict in the two financial objectives (4 Marks)

c) You are the finance officer of AD Enterprises and you have two financing decisions to make: Either to buy a packing machine cash or to finance it with borrowed funds. The cash price is Sh50,000. If the business borrows, its total repayment amount in four years' time will be Sh72,000. The cost of borrowing is 12%.
   i) Determine the better option*(show your workings)* (6Marks)
   ii) Suppose the packing machine is bought cash today and its total discounted future value is expected to be Sh52,000. Computeits Net Present Value (2 Marks)

d) Explain three ways in which a company benefits from issuing new ordinary shares rather than borrowing from the bank (6 Marks)

QUESTION TWO

The current unit price of a share is Sh10. The investor is expected to sells the share in future at Sh14 and earn a dividend income of sh2 per share.

a) Determine the share's rate of return (3 Marks)
b) The investor is also planning to invest 70% of his money in a bond whose expected return is 0.38. Determine the expected returns if the investor invests in both assets. (4 Marks)
c) Explain the three types of investor attitudes (3 Marks)

QUESTION THREE

TEMBE Ltd is considering investing in two projects, A and B. Each of them requires an investment of Sh400,000. The company's tax rate is 30% and its opportunity cost of capital is 10%. The future cash inflows projections are as follows:
Project A: Year 1 Sh200,000, Year 2 Sh170,000, Year 3 Sh280,000.
Project B: Year 1 Sh230,000, Year 2 Sh150,000, Year 3 Sh350,000.
Determine:

a) The Net Present Value (NPV) of the projects (8Marks)
b) State the project that should be selected and justify (2Marks)

QUESTION FOUR

a) Explain any two limitations of financial ratios (4 Marks)

b) Giving a relevant example in each case, discuss any three factors a finance officer will consider in selecting a source of finance (6 Marks)

QUESTION FIVE

MANG' Co. has the following capital structure:

Ordinary capital (1000 shares) Sh 1,800,000,
Preference capital Sh 100,000
Bonds Sh 250,000

If new ordinary shares are issued, a share will sell at Sh 50.The expected dividends will be Sh3 per shareand it is expected to grow at 6% per annum. A new 14% bond with a face value of Sh100,000 will sell at Sh98. New preference shares will sell at Sh72 and will pay a dividend of Sh1.80. The company's tax rate is 30%.

Determine:

a) The cost of equity (3 Marks)

b) The cost of preference capital (1 Marks)

c) The after-tax cost of debt (3 Marks)

d) The weighted Cost of Capital (3 Marks)

QUESTION SIX

The following financial information was obtained from the books of BEPTA Co. 31 Jan 2018. Most of the transactions were on credit. Assume 360 days in a year.

Gross Profit Margin	**Sh 160,000**
Gross Profit Margin Ratio	**25%**
Wages& Salaries	**Sh50,000**
Credit Purchases	**72% of Cost of sales**
Creditors (Payables) days	**40**
Current Assets	**Sh140,000**
Stock (Inventory)	**Sh60,000**
14% Bonds	**Sh4M**
Debt to Equity ratio	**0.3**

Required:

Determine:

a) Net Profit Margin Ratio (4marks)

b) Creditors (4marks)

c) Quick Acid Test Ratio (1marks)

d) Shareholder's Equity (1marks)