PAN AFRICA CHRISTIAN UNIVERSITY

BACHELORS OF COMMERCE

END OF TERM EXAMINATION

DEPARTMENT: BUSINESS

COURSE CODE: BUS3213|BCM202

COURSE TITLE: BUSINESS FINANCE

EXAM DATE: THURSDAY

TIME: 2PM – 5PM

INSTRUCTIONS

- This examination script consists of **six (6)** questions.
- Answer question ONE and ANY other three Questions.
- Show all your workings
- Read all questions carefully before attempting.

Write your **student number** on the answer booklet provided.

QUESTION ONE

a) Explain the following terms:

i) Discounting (2 Marks)

ii) A Portfolio (2 Marks)

b) i) Identify the primary objective and the secondary objective of the firm (2 Marks)

ii) Discuss any two differences between the two objectives identified in i) above (4 Marks)

QUESTION TWO

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 THREE

An investor bought a stock at Sh50 per unit two years ago and earned a dividend of sh1.80. Last year, the price rose to sh53 per unit and the dividend paid was sh2.68. Currently, the unit price is Sh57 and the dividend to be paid is sh3.30 per share.

a) Determine the stock's rate of return for each year (4Marks)

b) Determine the stock's average/expected rate of return (2 Marks)

c) The investor is also planning to invest 70% of his money in a bond whose expected rate of return is 42%. Determine the expected rate of returns if the investor invests in both assets. (4 Marks)

QUESTION THREE

ATB CO. is planning to purchase milling equipment whose cash price is Sh62,000 currently. However, the management feels that financing the equipment through borrowing would be better than buying cash. If the company borrows at 12% p.a, its total repayment amount in four years' time will be Sh80,000.

a) As a finance manager, advice the management on the better option and hence the amount to spend on acquiring the equipment today *(show your workings)* (6Marks)

b) Suppose the milling equipment is acquired today and its expected cash inflows in year one is sh30,000, year two sh56,000, year three sh33,000. Compute its Net Present Value if the discount rate is 12% (4 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 share and 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

a) Explain two ways in which a company benefits from issuing new ordinary shares rather than borrowing from the bank (4marks)

b) The following financial information was obtained from the books of Gmt Co. 31 July 2021. Most of the transactions were on credit.

Gross Profit Margin	Sh 220,000
Gross Profit Margin Ratio	20%
Wages& Salaries	Sh 70,000
Creditors	Sh 600,000
14% Bonds	Sh 2,000,000
Debt to Equity ratio	0.4

Required:

Determine:

i) Shareholder's Equity (2marks)

ii) Net Profit Margin Ratio (4marks)