BUS3213|BCM202: BUSINESS FINANCE

ONLINE CLASS

Instructions

i) **This exam paper contains SIX questions containing 10 marks each.**

ii) **Answer Question 1 (COMPULSORY) and any other THREE questions**

iii) **Read each question carefully before attempting.**

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QUESTION ONE

a) Explain the following terms:
   i) Opportunity cost of capital (2 Marks)
   ii) Annuity (2 Marks)
   iii) Risk (2 Marks)

b) With an example in each case, explain four financial decisions a finance manager makes in the business (4 Marks)

QUESTION TWO

a) Describe two distinguishing features of preference capital and ordinary capital (4 Marks)

b) As a finance manager in your firm, you have proposed two independent investments that need to be financed. The firm can either buy cash or borrow to pay. The cash price for both projects is Kes100,000. If your business borrows at 14%, the total repayment amount in five years' time will be Kes145,000. Determine the better option (show your workings)

(6 Marks)

QUESTION THREE

a) Determine the Net Present Value of an investment if the present value is Kes 9,000 and the initial investment is Kes 6,000 (2 Marks)

b) Giving a relevant example in each case, discuss any four factors a finance officer will consider in selecting a source of finance (8 Marks)

QUESTION FOUR

a) Clearly describe any two ways in which the two financial objectives of the firm differ (4 Marks).

b) Explain three ways in which a firm will benefit from issuing new ordinary shares as a source of finance as opposed to borrowing from the bank (6 Marks)

QUESTION FIVE

MEGA Ltd. is planning to invest in a project. The finance manager has identified two sources of finance: issuing of ordinary shares (Equity) worth Kes150,000 and a bank loan amounting to Kes60,000. The ordinary shares has a market price of Kes59. The dividend to be paid is Kes3 per share and will grow at a rate of 8% p.a. The bank loan (Debt) is charged an interest rate of 14%. The company's tax rate is 30%.

Determine:

a) The cost of equity (Ke) (3 Marks)
b) The cost of debt (Kd) (2 Marks)
c) The weighted Cost of Capital (Ko) (5 Marks)

QUESTION SIX

The following data was obtained from a publicly listed company:

Year	**Price/share (Kes)**	**Dividend/share (Kes)**
2015	17.32	2.4
2016	18.55	2.9
2017	19.01	3.0
2018	22.00	3.5
2019	21.15	3.6

Required:

a) Determine the share's rate of return for each year (3 Marks)
b) Calculate the share's expected rate of return (3 Marks)
c) Compute the Share's standard deviation (4 Marks)