PAN AFRICA CHRISTIAN UNIVERSITY

END OF TERM EXAMINATION

BUS3213: BUSINESS FINANCE

THURSDAY APRIL 3RD, 2014

1800HRS – 2100HRS

INSTRUCTIONS

- This Exam Script has **SEVEN (7) questions**.
- Answer **any five** questions of your choice.
- Write your **student number** on the Answer Booklet.
- Read all questions carefully before attempting.

QUESTION ONE

(a) Briefly discuss the main forms of business organization in Kenya (9 Marks).

(b) What is future value of Kshs 150,000 invested today for 8 years to earn an interest of 10% per annum payable semi- annually (5 Marks)

(c) Outline the role of a financial manager (6 Marks).

QUESTION TWO

(a) Define risk and discuss the two classifications of risk giving example (6 Marks).

(b) You decided to buy a house worthy 15 million. The requirement of the mortgage is that you pay a down payment of 1.5 million and the balance you apply for a bank loan payable in 20 years. The interest rate is 15% per annum and the interest is payable on monthly basis.

i) What would be the monthly repayment? (4Marks).

ii) Prepare a loan schedule for the 1st 10 months (10 Marks).

QUESTION THREE

(a) Briefly discuss three sources of funds (6 Marks).

(b)

Scenario	Probability	Return (A)	Return (B)	Return (C)
1	0.25	36%	29%	39%

2	0.25	16%	24%	29%
3	0.50	30%	29%	36%

Required: Combine security A and B, A and C and compute the standard deviation of the portfolio and comment on the risk (14 Marks).

QUESTION FOUR

(a) The following information relates to XYZ Ltd. The sales estimates are as follows:

Month	Sales estimates (Shs)
January	90,000
February	170,000
March	150,000
April	250,000
May	320,000
June	130,000

You are given the following additional information:

1) Sales for December was Shs.70,000
2) Credit sales are 50% and cash sales are 50% of the total sales
3) The credit period is one month after the sale is executed
4) Gross profit is expected to be 20%
5) Payments for purchases are on cash basis
6) Other monthly expenses are: Rent (Shs 2,000),Salaries (Shs 9,000), Depreciation (Shs 720)

Required: Prepare a cash budget for the period January to June 15 Marks).

(b) The demand for a particular commodity is 40,000 units a year. It costs Shs. 20 to place an order and Shs. 0.40 to hold a unit for one year. What is the Economic Order Quantity (EOQ)? (5 Marks).

QUESTION FIVE

(a) Differentiate between the Capital market and the Money market (5 Marks).

(b) Below is XYZ Ltd profit and loss year ended 31st December 2013.

	Shs	Shs
Cash Sales		300,000
Credit Sales		600,000
		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 expense		
Depreciation	13,100	
Directors fees	15,000	
General expenses	20,900	
Interest on loan	4,000	53,000
Net profit before tax		127,000
Less corporate tax@ 30%		38,100

Net profit after tax		88,900
Less appropriation		
Preference dividend	4,800	
Ordinary dividend	10,000	14,800
Profit and Loss A/C		74,100

XYZ Ltd Balance Sheet as at 31st December 2013

	Shs	Shs
Fixed Assets		213,900
Current Assets		
Stocks	150,000	
Debtors	35,900	
Others	20,000	
	205,900	
Current Liabilities		
Creditors	60,000	
Provision for corporate tax	38,100	
Proposed dividend	14,800	
	112,900	
Working Capital		93,000
		306,900
Financed by		
Share capital	100,000	
Ordinary share capital	60,000	160,000

Revenue reserve

Profit and loss 31.12.12	32,800	
Profit and loss 31.12.13	74,100	106,900
10% Loan Finance		40,000
		306,900

Required: Compute i) Liquidity ratios (5 Marks).

ii) Turnover Ratios (5 Marks).

iii) Profitability ratios (5 Marks).

NB: Comment how the ratios would be of interest to the management of XYZ Ltd (15 Marks).

QUESTION SIX

(a) Using the Net Present Value determine which project A or B is more viable. The interest rate is 12% per annum (16 Marks).

Year	Cash Flows (A)	Cash Flows (B)
0	(600,000)	(600,000)
1	200,000	150,000
2	300,000	200,000
3	200,000	300,000
4	150,000	150,000

(b) Define working capital management and the consequences of its ineffectiveness (4 Marks).

QUESTION SEVEN

(a) Write short notes on the following terms:

i) Sunk cost (2 Marks).

ii) Opportunity cost (2 Marks).

iii) Brokers (2 Marks).

iv) Jobbers (4 Marks).

v) Central Depository System (4 Marks).

(b) Compute the Pay Back Period of a project with the following cash flows. Is the project viable if the management has put a benchmark payback period of four years? (6 Marks).

Year	Cash flow
0	(500,000)
1	170,000
2	120,000
3	140,000
4	160,000
5	120,000