PAN AFRICA CHRISTIAN UNIVERSITY

END OF TERM EXAMINATION

BUS3213: BUSINESS FINANCE

MONDAY MARCH 31ST, 2014

0800HRS – 1100HRS

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.

Attempt Any Five Questions

QUESTION ONE

a) Discuss four roles of a finance manager in a business organization. [8 marks]

b) Discuss the following sources of finance in each case giving 2 advantages and 2 disadvantages
   i) Debentures [4marks]
   ii) Retained earnings [4 marks]
   iii) Equity capital [4 marks]

QUESTION TWO

a) Discuss briefly the following terms as used in the security exchange
   i) Cum capitalization [2 marks]
   ii) Primary market [2 marks]
   iii) Secondary market [2marks]
   iv) 20 share index [2 marks]

b) An investor wants to invest kshs. 1,000,000 at the end of each year for the next 15 years. If the interest rate is 13% how much will the amount be at the end of the investment period if interest is compounded
   i) Annually [3marks]
   ii) Quarterly [3marks]

c) Discuss six reasons justifying proper cash management in an enterprise. [6 marks]

QUESTION THREE

a) Explain five limitation of ratio analysis. [10 marks]
b) Discuss five importance of preparing a cash flow statement in an organization. [10 marks]

QUESTION FOUR

Makao limited is a highly geared company and has financed its activities as follows.

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Source of funds	Amounts	after tax cost
Debt	5,500,000	15%
Preference shares	4,200,000	10%
Retained earnings	2,500,000	18%
Ordinary shares	9,800,000	18%

Calculate the weighted average cost of capital **[20 marks**

QUESTION FIVE

a) Discuss four importance of profit planning. [8 marks]
b) Explain four yardstick used in ratio analysis and how they are utilised. [12 marks]

QUESTION SIX

a) Explain six role of the capital market to the development of the economy of Kenya. [10 marks]
b) Discuss 4 risks faced by organization and how they should be managed [8 marks]

QUESTION SEVEN

a) An investor is to receive kshs.10,000,000 at the end of 10 years. If the opportunity rate is 11% what is the present value of this investment if interest is compounded
    a. Annually [3marks]
    b. Quarterly [3 marks]

b) Discuss seven factors that influence the cost of finance in a business enterprise.

[14 marks]