PAN AFRICA CHRISTIAN UNIVERSITY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

SEPTEMBER- DECEMBER 2019

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS

COURSE CODE: BCM 202

COURSE TITLE: BUSINESS FINANCE

EXAM DATE:

TIME:

INSTRUCTIONS

- This examination script consists of **six(6)** questions.
- Answer question **ONE** and ANY other **three** Questions.
- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.

SECTION A - COMPULSORY

Question One (Compulsory = 30 marks)

a. Explain **two** functions of financial markets (4 marks)

b. While preparing a financial plan for any business unit, certain aspects should be kept in view so as to ensure the success of such exercise in meeting the organizational objectives. Explain **three** of these aspects. (6 marks)

c. Discuss the usefulness of a cash flow statement (8 Marks)

d. Kebokero investment Co. ltd wants to raise further finance from the following sources
   - To issue 500,000 ordinary shares of Kshs. 10 at Kshs. 15 each
   - To issue 600,000 10% preference shares of Kshs. 10 at Kshs. 12 each
   - To issue 400,000 15% debentures of Kshs. 100 at Kshs. 90 each
   - To raise a medium term loan of Kshs. 5,000,000 at an interest rate of 20%

   The company will pay an annual dividend to ordinary shares of 14%. Assume a corporate tax of 50%

   Required:-

   Calculate the weighted average cost of capital (WACC) (12 marks)

SECTION B : ANSWER THREE QUESTIONS

Question Two (10 Marks)

a. Outline **two** circumstances in which the weighted average cost of capital cannot be used in analyzing the investment projects being considered by the firm. (2 marks)

b. Outline any **four** limitations of using ratios as a basis for financial analysis (4 marks)

c. Explain any **four** factors that affect working capital needs of a firm. (4 marks)

Question Three **(10 Marks)**

The balance sheet given below is for ABZ company.

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital	2,00,000	Land and Buildings	1,40,000
Profit & Loss Account	30,000	Plant and Machinery	3,50,000
General Reserve	40,000	Stock	2,00,000
12% Debentures	4,20,000	Sundry Debtors	1,00,000
Sundry Creditors	1,00,000	Bills Receivable	10,000
Bills Payable	50,000	Cash at Bank	40,000
	8,40,000		8,40,000

Calculate :

(1) Current Ratio
(2) Quick Ratio
(3) Inventory to working Capital
(4) Debt to Equity Ratio
(5) Proprietary Ratio

Each ratio is 2 marks

Question Four **(10 marks)**

From the following summary of Cash Account of Suryan Ltd., prepare Cash Flow Statement for the year ended 31st March 2007 using the indirect method.

To Balance b/d 1.4.2006	50	By Payment to Suppliers	2,000
To Equity Shares	300	By Purchase of Fixed Assets	200
To Receipt from Customers	2,800	By Overhead Expenses	200
To Sale of Fixed Assets	100	By Wages & Salaries	100
		By Taxation	250
		By Dividends	50
		By Repayment of Loan	300
		By Balance c/d (31.8.2007)	150
	3,250		3,250

Question Five **(10 marks)**

a. Discuss **two**major functions of a finance manager. (4 marks)
b. Explain the **four** major objectives of a firm giving an example in each. (6 marks)

Question Six **(10 marks)**

a. Define the term capital structure. (2 marks)

b. Explain **four** determinants of capital structure of a firm. (8 marks)