PAN AFRICA CHRISTIAN UNIVERSITY

SCHOOL OF LEADERSHIP, BUSINESS AND TECHNOLOGY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

BACHELOR OF COMMERCE

BACHELOR OF BUSINESS LEADERSHIP

MAY – AUGUST 2018

CAMPUS: VALLEY ROAD

DEPARTMENT: BUSINESS STUDIES

COURSE CODE: BCM202|BUS3213

COURSE TITLE: BUSINESS FINANCE

EXAM DATE: FRIDAY 10th AUGUST 2018

TIME: 5:30PM-8:30PM

INSTRUCTIONS

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

QUESTION ONE (Compulsory = 40 marks)

a. Differentiate between fixed capital and working capital giving examples. (3 marks)

b. Explain five functions of a finance manager. (5 marks)

c. Explain the four objectives of a firm. (6 marks)

d. Discuss three functions of financial markets? (6 marks)

e. Janehorth Jewellery sells jewelry through stores in retail shopping centers throughout the country. Over the last two years it has experienced declining profitability and is wondering if this is related to the sector as whole. It has recently subscribed to an agency that produces average ratios across many businesses. Below are the ratios that have been provided by the agency for Janehorth's business sector based on a year end of 30 June 2012.

Return on year-end capital employed (ROCE)	16·8%
Net asset (total assets less current liabilities) turnover	1·4 times
Gross profit margin	35%
Operating profit margin	12%
Current ratio	1·25:1
Average inventory turnover	3 times
Trade payables' payment period	64 days
Debt to equity	38%

The financial statements of Quartile for the year ended 30 September 2012 are:

Income statement

	$'000	$'000
Revenue		56,000
Opening inventory	8,300	
Purchases	43,900	
	52,200	
Closing inventory	(10,200)	(42,000)
Gross profit		14,000
Operating costs		(9,800)
Finance costs		(800)
Profit before tax		3,400
Income tax expense		(1,000)
Profit for the year		2,400

Statement of financial position		
	$'000	$'000
Assets		
Non-current assets		
Property and shop fittings		25,600
Deferred development expenditure		5,000
		30,600
Current assets		
Inventory	10,200	
Bank	1,000	11,200
Total assets		41,800
Equity and liabilities		
Equity		
Equity shares of $1 each		15,000
Property revaluation reserve		3,000
Retained earnings		8,600
		26,600
Non-current liabilities		
10% loan notes		8,000
Current liabilities		
Trade payables	5,400	
Current tax payable	1,800	7,200
Total equity and liabilities		41,800

Note: The deferred development expenditure relates to an investment in a process to manufacture artificial precious gems for future sale by Janehorth in the retail jewelry market.

Required:

i. Prepare the equivalent ratios that have been provided by the agency. (9 marks)

ii. Assess the financial and operating performance in comparison to its sector averages. (8marks)

iii. Explain three possible limitations of the usefulness of the above comparison. (3 marks)

QUESTION TWO (15 Marks)

i. Explain the importance of cash flow statements. (3 marks)

ii. Using the information below, prepare ***in good form*** a Statement of Cash Flows for Savage Corporation on the following page. Information from the December 31, 2012 and 2011 balance sheets of Savage Corporation are presented below. Usethe indirect method. (12 marks)

	2012	**2011**
Cash	$ 30,000	$ 50,000
Accounts Receivable, net	410,000	460,000
Inventory	300,000	320,000
Prepaid Expenses	20,000	15,000
Long-Term Investments	50,000	25,000
Land	560,000	300,000
Buildings and Equipment	2,000,000	1,900,000
Accumulated Depreciation	(800,000)	(770,000)
	$ 2,570,000	**$ 2,300,000**

Accounts Payable	$ 300,000	$ 120,000
Accrued Liabilities	40,000	50,000
Bonds Payable	500,000	800,000
Long-Term Note Payable	150,000	0
Common Stock, $2 par value	200,000	160,000
Paid-in Capital in Excess of Par Value	710,000	550,000
Retained Earnings	670,000	620,000
	$ 2,570,000	**$ 2,300,000**

Additional information about 2012 transactions and events:

(a) Net income was $110,000.

(b) Depreciation expense on buildings and equipment was $60,000.

(c) Sold equipment with a cost of $50,000 and accumulated depreciation of $30,000 for cash of $17,000.

(d) Declared and paid cash dividends of $60,000.

(e) Issued a $150,000 long-term note payable for buildings and equipment.

(f) Purchased long-term investments for $25,000.

(g) Paid $300,000 on the bonds payable.

(h) Issued 20,000 shares of $2 par value common stock for $200,000.

(i) Purchased land for $260,000.

QUESTION THREE (15 Marks)

a. Explain time value of money. (2 marks)

b. Give reasons of preferring current cash to future cash. (5 marks)

c. Show the application of the concept of time value of money in finance. (8 marks)

QUESTION FOUR (15 marks)

a. Explain the limitationof WACC as a discounting rate (3marks)

b. ABC company wants to raise further finance from the following sources:

   i. To issue 500,000 ordinary sharesof shs.10.00 each at shs. 15.00 each.

   ii. To issue 600,000 10% preference shares of shs. 10.00 each atshs.12.00 each

   iii. To issue 40,000 15% debentures of shs. 100.00 at shs.90.00

   iv. To raisemedium term loan of shs. 5,000,000 from financial institutions at an interest rate of 20% p.a.

   v. the company will pay an annual dividend to ordinary shareholders of 14% and a corporate tax of 50%

Find the average cost of additional finance. (12 Marks)

QUESTION FIVE (15 marks)

a. State the importance of financial planning (2 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 organisational objectives. Explain these aspects. (6 marks)

c. Explain the determinants of capital structure of a firm. (7 marks)

QUESTION SIX (15 marks)

a. Charles has secured a seven year contract with a football club where the contract fee per annum is Kshs. 7,200,000. The cost of capital is 18%.Compute the present value of the contract. (6 marks)

b. The following cash flows are from a 12 year project. The cost of capital is 10%. Calculate the present value of the project. (9 marks)

Year	Cashflow
1-5	Shs. 4,500
6-8	Shs. 6,000
9-12	Shs. 5,200