PAN AFRICA CHRISTIAN UNIVERSITY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

JANUARY-APRIL 2021

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 organisational objectives. Explain **three** of these aspects. (6 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)**

a. ABC 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) (10marks)

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)