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

BACHELOR OF BUSINESS INFORMATION TECHONOLOGY

SEPTEMBER – DECEMBER 2017

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS STUDIES

COURSE CODE: BCM202|BUS3213|BIT302

COURSE TITLE: BUSINESS FINANCE

EXAM DATE: THURSDAY 7th DECEMBER 2017

TIME: 9.00AM-12.00PM

INSTRUCTIONS

- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.
- This examination script consists of **Six (6)** questions.
- Answer question **ONE** and ANY other **four** Questions.
- *ALL PAC University's examination rules and regulations apply.*

QUESTION ONE

a) Distinguish between the following terms:
   i. Compound rate and discount rate (4 Marks)
   ii. Systematic risk and unsystematic risk (4 Marks)
   iii. Risk averse and risk preference (4 Marks)
   iv. Current ratio and receivable ratio (4 Marks)

b) Highlight four assumptions of Capital Asset Pricing Model (4 Marks)

c) Explain three main decisions made by a finance manager (6 Marks)

d) Discuss four factors affecting the choice of sources of finance (8 Marks)

e) James has an option of either receiving Ksh 2000 cash today or Ksh 3500 in two years' time at an interest rate of 10%. Advise him (show your workings) (6 Marks)

QUESTION TWO

DIKEL Co. is considering investing in a project for which the following information has been generated:

		Ksh
Initial capital outlay		(200 000)
Cash flowsfor the year:	Year 1	90 000
	Year 2	120 000
	Year 3	270 000
	Year 4	310 000

The company's cost of capital is 10%.

a) i) Compute the discounted payback period (5 Marks)

   ii) Explain whether the business should invest in the project if the expected payback period is 3 years? (1 Marks)

b) i) Net Present Value (6 Marks)

   ii) Explain whether the business should invest in the project? (1 Marks)

c) Profitability Index (2 Marks)

QUESTION THREE

The following data for assetsM and N has been extracted from financial books of BELTA enterprises.

Condition	Probability (%)	Returns (%)	
		M	N
Very good	0.1	11	15
Good	0.3	8	12
Neutral	0.3	5	10
Bad	0.1	-3	-4
Very bad	0.2	-2	-7

Determine:

a) The expected returns of each asset (4 Marks)

b) The expected portfolio returns if the assets have equal proportions (3 Marks)

c) The standard deviations of each asset (6 Marks)

d) If you were a risk averse investor, which asset(s) would you choose and why? (2 Marks)

QUESTION FOUR

REDN Co. intends to pay a Ksh2 ordinary dividend per share next year and is expected to increase by 8% per year thereafter. Currently, the Company's stock is trading at Ksh12 per share. The company's ordinary capital is Ksh 60million. The company has a debt of Ksh30million and pays an interest of Ksh 1million pa. Preference dividend is Ksh3 per share with a market price of Ksh 20. Preference capital is Ksh 40million. Corporate tax rate is 30%.

Determine:

a) The company's cost of equity (3 Marks)

b) The company's after tax cost of debt (3 Marks)

c) The company's cost of preference stock (2 Marks)

d) The company's weighted average cost of capital (WACC) (7 Marks)

QUESTION FIVE

The following data has been obtained from the financial statement of SADEN Co.

Sales	Ksh60million
Cost of sales	Ksh36million
Debtor's ratio	45 days
Bank loan	10%, 10million
Expenses	Ksh16million
Number of shares	2000 000 @sh2
Creditors	40% of bank loan

Determine the following:

a) Debtors (3 Marks)
b) Current ratio (3 Marks)
c) Gross profit ratio (3 Marks)
d) Gearing ratio (3 Marks)
e) EPS ratio (3 Marks)

QUESTION SIX

a) Highlight three limitations of financial ratios (3 Marks)
b) Discuss three advantages and three disadvantages of share capital over debt as a source of finance (12 Marks)