

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS
CHUKA/THARAKA/EMBU**

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 231: BUSINESS FINANCE

STREAMS:BCOM Y2S1

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 4/12/2019

2.30 P.M – 4.30 P.M

INSTRUCTIONS

Answer question one and any other two questions

QUESTION ONE

- (a) There are various finance functions that are of importance to an organization and can only be carried out by a finance manager. Discuss these functions . [12 marks]
- (b) A company is considering to invest in a project with the following profits.

Year	1	2	3	4	5
Profits	18,000	16,000	15,300	18,700	14,000

Additional information

- (i) The initial cost of the project is ksh 80,000
- (ii) It has a scrap value of ksh 24,000
- (iii) Depreciation is on straight line method
- (iv) The tax rate is 30%
- (v) The cost of capital is 10%

Required :

- (i) Calculate the cash flows of the project. [5 marks]
- (ii) Accounting rate of return [3 marks]
- (iii) Net present value [4 marks]
- (iv) Profitability index [1 marks]

- (v) Internal rate of return [2 marks]
- (c) An investor wishes to withdraw ksh 5500 every year for 5 years from a fixed deposit account offering an interest rate of 12% . Determine the amount he should invest now. [3 marks]

QUESTION TWO

(a) Gift investment company has the following capital structure

200,000 ordinary shares @ksh 15 par	3,000,000
50,000 8% preference shares of ksh 20 par	1,000,000
100,000 10% debentures @ ksh 25	2,500,000
8% long term loan	<u>500,000</u>
	7,000,000
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Additional information

The current market value of ordinary shares is ksh 20 and the firm expects to pay dividend of ksh 4 which will grow at 10% per annum.

The preference shares are now selling at ksh 25 and will mature in 2 years.

The debenture is currently selling at ksh 20.

Tax rate is 30%

Required :

- (i) Calculate the individual cost of capital. [8 marks]
- (ii) Calculate the weighted average cost of capital. [4 marks]
- (b) Conflict may arise in an organization between shareholders and auditors.
- (i) Discuss causes of conflict in an organization between shareholders and auditors. [5 marks]
- (ii) Highlight the solutions for this conflict. [3 marks]

QUESTION THREE

(a) An investor is considering to invest in a bond that has a par value ksh 2000 with a maturity of 4 years and a coupon rate of 12% p.a. The bond is currently selling in the market at ksh 1800. The tax rate is 30% and cost of capital is 15%

Required :

- (i) Calculate the yield to maturity [3 marks]
- (ii) Calculate the theoretical value of the bond. [3 marks]
- (iii) Determine if the bond is underpriced or overpriced and advise the investor. [2 marks]
- (b) Explain the following sources of finance
 - Debenture
 - Bill of exchange
 - Mortgage [6 marks]
- (c) Explain the non financial goals of a firm. [6 marks]

QUESTION FOUR

- (a) Highlight the limitations for the use of ratios. [6 marks]
- (b) Describe reasons for valuation of securities. [5 marks]
- (c) Gifted company presented the following information it its statements.

	Ksh
Sales	5,000,000
Cost of sales	<u>(1,500,000)</u>
Gross profit	3,500,000
Less :expenses	<u>(500,000)</u>
Net profit	3,000,000
Less tax (50%)	<u>(1,500,000)</u>
Profits after tax	1,500,000
Less dividend	<u>(800,000)</u>
Retained earnings	700,000
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The total outstanding shares is 200,000. The market price for each share is ksh 50.

Required :Calculate

- (i) Net profit margin and markup [3 marks]
- (ii) Gross profit markup [2 marks]
- (iii)Dividend per share [2 marks]
- (iv)Earnings per share [2 marks]