

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS
RESIT/SPECIAL EXAMINATIONS**

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE
AND AGRIBUSINESS MANAGEMENT**

BCOM 230/231: BUSINESS FINANCE

STREAMS:BCOM, AGBM

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 12/09/2018

8.30 A.M – 10.30 A.M

INSTRUCTION:

- **Answer question one and any other two**

1. (a) Describe the features of a good investment appraisal technique. [5marks]
 (b) Explain the non financial goals of a firm. [5marks]
 (c) A conflict in an organization may arise between shareholders and auditors.
 (i) Explain any 2 causes of conflict. [2marks]
 (ii) Describe 3 solutions to these conflicts. [3marks]
 (d) The following cash flow pattern belong to ABC company limited as a result of investing in a project which costs ksh 100,000.

Year	1	2	3	4	5
Cash flow	16,000	8,000	20,000	18,000	22,000

The cost of capital is 12% . Tax rate is 50% .

Required . calculate

- (i) Net present value [4marks]
- (ii) Profitability index [2marks]
- (iii) Internal rate of return [4 marks]

- (iv) If the amount of depreciation for this project is ksh 8,000 per year and it has no scrap value. What is the accounting rate of return (ARR) . [5marks]
2. (a) Describe the significance of cost of capital. [5marks]
- (b) The following capital structure belongs to Ekoroy limited.

	Ksh
100,000 ordinary shares @ ksh 20	2,000,000
6% debentures @ ksh 50	1,500,000
10% preference share @ksh 100	2,000,000
Retained earnings	800,000
Long term loan	1,000,000
	7,300,000

Additional information

- (i) The ordinary shares are currently selling at ksh 25. The ordinary dividend paid is ksh 4 and it is expected to grow at 12%.
- (ii) The 6% debenture was issued 6 years ago and it is selling at its par value.
- (iii) The 10% preference share is currently selling at ksh 120 and will mature in 5 years.
- (iv) The long term loan was issued at an interest rate of 15%.
- (v) Tax rate is 30%.

Required :

- (i) Calculate the weighted average cost of capital. [15marks]
3. A firm currently pays a dividend of 5 per share. The dividend is expected to grow at 10% for 2 years, 15% for 3 years then at 8% into perpetuity. The cost of capital is 12%. Calculate the rate of ordinary share. [8marks]
- (b) Describe the reasons for valuation of securities. [6marks]
- (c) Mary has decided to deposit ksh 6,200 and the ned of each year for 7 years at an interest rate of 15%. Calculate the amount mary will receive after 7 years. [4marks]
- (d) Differentiate between compounding and discounting. [2 marks]
4. (a) Ndatani limited has invested in a 8% ksh 10,000, 5 year bond. This bond is currently selling at ksh 12,000 in the market. Tax rate is 30%cost of capital is 10% .

(i) Calculate the intrinsic value of the bond. [3marks]

(ii) Calculate the yield to maturity of the bond. [3marks]

(ii) Advise the company whether to sell the bond. [2marks]

(b) Calculate the payback period of the following project.

Year	1	2	3	4	5
Cash flow	5000	64,000	80,000	75,000	71,000

The initial cost of the project is ksh 250,000 [4marks]

(c) Discuss the limitation of ratio analysis. [4marks]

(d) Describe the following sources of finance.

Mortgage [2marks]

Venture capital [2marks]

