

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**EXAMINATION FOR THE AWARD OF DEGREE OF
BACHELOR OF COMMERCE**

BCOM 231: BUSINESS FINANCE

STREAMS: BCOM Y2S2

TIME: 2 HOURS

DAY/DATE: THURSDAY 09/08/2018

11.30 AM – 1.30 PM

INSTRUCTIONS:

Answer Question One and any other Two Questions

QUESTION ONE

- (a) Discuss the functions of the finance manager. [6 marks]
- (b) In a public limited company, conflict arises whenever the agents pursues actions that are inconsistent with the principals. Discuss what causes the conflict between shareholders and creditors and the solutions to the conflicts. [6 marks]
- (c) Mary intends to deposit sh 50,000 at the beginning of each year for 8 years at an interest rate of 20%. Determine how much Mary will receive after 8 years. [3 marks]
- (d) John has invested in a 8 year 12% sh 40,000 bond redeemable at par. The market price of the bond is sh 45,000. The cost of capital is 15% and the tax rate is 30%

Required:

- (i) Calculate the intrinsic value of the bond and basing on this calculation should John purchase the bond. [4 marks]
- (ii) Calculate the yield to maturity of the bond. [3 marks]
- (e) A company is considering investing in a project that promises a profit before depreciation and tax of sh 20,000 each year for 5 years. The cost of the project is sh 70,000 with sh

- 10,000 as the scrap value. Tax rate is 30% and depreciation is on straight line method.
 Determine the accounting rate of return. [5 marks]
 (f) Highlight the advantages of payback period. [3 marks]

QUESTION TWO

- (a) Outline the significance of investment decisions. [4 marks]
 (b) Company X intends to buy a new machine costing sh 200,000 with a scrap value of sh 50,000. The machine is expected to produce 3000, 2500, 4000, 5000 and 2000 kg each year respectively each kg selling at sh 40 per kg. The variable cost per unit is sh 15 and the fixed cost is sh 15,000 each year. Tax rate is 30% and depreciation is on straight line method. Required determine the NPV/PI and IRR if the cost of capital is 12%. [13 marks]
 (c) Distinguish between mutually exclusive and independent investments. [3 marks]

QUESTION THREE

- (a) Explain the significance of the cost of capital [4 marks]
 (b) The following is the capital structure of ABC Limited

	Sh (000)
Ordinary shares (sh 50 par)	10,000
8% preference shares (sh 30 par)	6,000
12% debentures (sh 100 par)	8,000
15% medium term loan	4,000
Retained earnings	<u>28,000</u>
	<u>30,000</u>
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Additional information:

- (i) The ordinary shareholders expects a cash dividend of sh 20 per share and the dividend is expected to grow at 10%. The current market price is sh 120 including sh 20 as floatation cost.
 (ii) The preference shares are currently selling at sh 45
 (iii) The debenture will mature in 50 years and currently selling at sh 150
 (iv) Medium term loan is currently selling at sh 5 million
 (v) Tax rate is 30%

Required:
 Weighted Average cost of capital [12 marks]

- (c) Describe the non financial goals of a firm. [4 marks]

QUESTION FOUR

- (a) Discuss the uses of ratio analysis. [4 marks]
- (b) Asembo limited currently pays a dividend of 15/= per share and the dividend is expected to grow at 8% for 3 years, 10% for 2 years and 12% for 2 years after which it will fall to a constant rate of 7%. The required rate of return is 12%. Calculate the intrinsic value of the shares. [9 marks]

- (c) The following information has been extracted from the books of Andrean limited

	Amount (sh)
Credit sales	1,000,000
Cash sales	500,000
Current assets	1,500,000
Current liabilities	1,000,000
Profits after tax is 20% of the total sales	
Dividend for the year is 50% of profits after tax	
Ordinary shares (@50 per share)	1,000,000
Debtors	100,000
10% debentures	1,000,000

Required:

- (i) Current ratio [1 mark]
- (ii) Debtors turnover [2 marks]
- (iii) Dividend per share [2 marks]
- (iv) Debt to equity ratio [2 marks]