

CHUKA



UNIVERSITY

## UNIVERSITY EXAMINATIONS

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

**BCOM 231: BUSINESS FINANCE**

**STREAMS: BCOM Y2S2 (ODEL)**

**TIME: 2 HOURS**

**DAY/DATE: TUESDAY 14/04/2020**

**2.30 PM – 4.30 PM**

#### **INSTRUCTIONS:**

**Answer Question One and any other Two**

#### **QUESTION ONE**

- (a) Agency problem arises when agents pursue their own interest rather than the interest of the principal. Discuss the causes of conflict between shareholders and managers. [8 marks]
- (b) An investor invests in a project which costs sh 170000 and the project promises profits before depreciation and tax as follows:

Year	1	2	3	4	5
PBD&T	90000	85000	72000	98000	58000

The project scrap value will cost sh 10000

Depreciation is on straight line basis

The rate of return of project is 12%

Tax rate is 30%

Required: Calculate

- |       |                         |           |
|-------|-------------------------|-----------|
| (i)   | Net cashflows           | [5 marks] |
| (ii)  | Net present value       | [5 marks] |
| (iii) | Profitability index     | [5 marks] |
| (iv)  | Internal rate of return | [5 marks] |

- (c) An investor intends to deposit sh 8200 every end of year for 6 years. The interest on the account is 11% p.a, calculate the amount he will receive after 6 years. [3 marks]
- (d) Outline features of a good investment appraisal technique [4 marks]

## QUESTION TWO

- (a) The following dividend pattern relates to marvel limited.

Year	DPS (ksh)
2012	15.45
2013	16.85
2014	20.32
2015	18.55
2016	19.25

Determine the value of the share in the year 2016. Assume cost of equity is 12%.

[6 marks]

- (b) In a finance department there are various finance functions. But there are functions of importance that are only carried out by managers. Describe the managerial finance functions. [8 marks]
- (c) The following information relates to 2 independent projects costing sh 300,000

Project A	Project B
80000	100000
120000	90000
140000	70000
190000	170000
60000	50000

Calculate the payback period for both projects and advice on which project to invest in.

[6 marks]

## QUESTION THREE

- (a) The following is the capital structure of Le limited

Ordinary shares (sh 30)	750000
12% preference shares (sh 15)	450000
10% debenture (sh 100)	400000
Retained earnings	300000
	<u>1,900,000</u>

Additional information

1. The company has paid dividend of sh 15 which is expected to grow at 8%.  
The current market price of the share is sh 40.
2. The 12% preference share is sh 20 and it is expected to mature in 5 years.
3. The 10% debenture is currently selling for sh 120 and will mature in 20  
years
4. The tax rate is 30%

Required:

- Compute weighted average cost of capital [12 marks]
- (b) Discuss the non-financial goals of a firm. [8 marks]

**QUESTION FOUR**

- (a) A company currently pays a dividend of sh 15 per share. The dividend is expected to grow at 8% for 3 years then 10% percent for 2 years and eventually 12% into perpetuity. Calculate the intrinsic value of the share if the cost of capital is 15%. [10 marks]
- (b) Outline the significance of ratio analysis [6 marks]
- (c) Explain the following sources of finance
- (i) Long term loan [2 marks]
  - (ii) Ordinary shares [2 marks]
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