

CHUKA



UNIVERSITY

SUPPLEMENTARY / SPECIAL EXAMINATIONS

SECOND YEAR EXAMINATION FOR THE AWARD OF BACHELOR DEGREE IN

BCOM 230 / BCOM 231: BUSINESS FINANCE, BCOM, BPLM, BEEM, BCOP, BCOM 231

STREAMS: BCOM, BCOP, BPLM, BEEM

TIME: 2

HOURS

DAY/DATE: MONDAY 16/11/2020

11.30 A.M - 1.30 P.M.

INSTRUCTIONS:

- Answer Question One and any other Two Questions

Question One

- Discuss the role of a financial manager in a contemporary business environment (8 marks)
- Explain the non financial goals of a firm (6 marks)
- Outline the features of a good investment appraisal technique (6 marks)
- The following information relates to the cash flows of two projects A and B

		Project A	Project B
Initial cash outlay		120000	55000
Useful life of project		5	5
Cashflows	1	15000	25000
	2	12000	18000
	3	10000	30000
	4	35000	20000
	5	22000	8000

The required rate of return for investors who want to put their money in these projects is 15%.

Required; calculate

Net Present Value (6 marks)

Payback period (4 marks)

Question Two

a) The following is the capital structure of ABC Limited as at 31st December 2016

	shs `000'
Ordinary Share Capital (shs 20 par)	6000
Retained Earnings	4000
15% Preference Share Capital (shs 25 par)	2000
10% Debt (shs 100 par)	<u>4000</u>
	<u>16000</u>

Additional Information

- i. Corporate tax rate is 30%.
- ii. Preference shares issued 10 years ago and are still selling at par value
- iii. The debt has a 10 year maturity period. It is currently selling at sh. 150 in the market.
- iv. Currently the firm pays dividends of of shs 4 per share and the dividend per share is expected to grow at 8% in the future. The market price per share is shs 50.

Required

- i)The cost of various components of capital (8 marks)
- ii)The Weighted Average Cost of Capital (6 marks)
- b) Discuss the reasons for conflict between shareholders and managers in any organisation (6 marks)

Question Three

a) Outline the limitations of ratios analysis as a way of interpreting financial statements (6 marks)

b) The following information was extracted from the financial statements of Michely Company Limited for the year ended 30th December 2019.

Profit after taxation sh 3,000,000
 Ordinary dividend declared 60% of profits after taxation
 The market price of ordinary shares sh 50 per share
 12% preference shares of sh 10 each sh 2,500000
 Ordinary shares of sh 15 each- sh 5000000

Required

- Dividend per share
- Dividend yield
- Earnings per share
- Earnings yield
- Price earnings ratio (10 marks)

c) Clinton expects to receive sh 150000 in 8 years. How much should he deposit each year at an interest rate of 18% to accumulate to the required amount. (4 marks)

Question Four

a) A company currently pays a dividend of sh 2 per share and this dividend is expected to grow at 20% for 5 years, 10% for the next 3 years after which it will fall to a constant rate of 7% thereafter. The cost of capital is 12%.

Required: Determine the intrinsic value of the company's share (8 marks)

b) The following dividend pattern relates to Sunu limited for the last five years. Calculate the value of the share in the year 2018. If the cost of capital is 12% (5 marks)

Year	Dividend Per Share
2014	8.5
2015	7.0
2016	9.5
2017	10
2018	12.6

c) Give reasons why NPV and IRR may give conflicting decisions in project evaluation

(4 marks)

d) Distinguish between discounting and compounding

(3 marks)

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