

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

RESITS/SPECIAL

EXAMINATIONS FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 231: BUSINESS FINANCE

STREAMS: BCOM

TIME: 2 HOURS

DAY/DATE: MONDAY 01/02/2021

11.30 A.M. – 1.30 P.M.

INSTRUCTIONS: Answer Question ONE and any other TWO

QUESTION ONE

- a) Discuss the functions that are carried out by a financial manager in a business set up (8 marks)
- b) Explain any 2 main financial goals of a firm (6 marks)
- c) Outline the features of a good investment appraisal technique (6 marks)
- d) The following information relates to the cash flows of two projects X and Y

		Project X	Project Y
Initial cash outlay		150000	80000
Useful life of project		5	5
Cashflows	1	40000	15000
	2	30000	20000
	3	30000	30000
	4	60000	40000
	5	22000	15000

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

Required; calculate

- (i) Payback period (4 marks)
- (ii) Net present value (6 marks)

QUESTION TWO

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

	shs `000`
Ordinary Shares (shs 30 par)	6000
Retained Earnings	4000
10% Preference Share Capital (shs 20 par)	2000
12% Debentures (shs 150 par)	<u>4000</u>
	<u>16000</u>

Additional Information

- i. Corporate tax rate is 30%.
- ii. Preference shares will mature in 5 years ago and are selling at sh 25
- iii. The debt has a 10 year maturity period. It is currently selling at sh.200 in the market.
- iv. Currently the firm pays dividends of of shs 5 per share and the dividend per share is expected to grow at 8% in the future. The market price per share is shs 40.

Required

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

Question Three

a) Outline the advantages of ratios analysis as a way of interpreting financial statements (5 marks)

A company is expecting to invest in a project that has the following information

Year	Units produced
2014	70
2015	40
2016	30
2017	60
2018	50

Additional Information:

- Selling price per unit is sh 200
- The total cost of producing each unit is sh 80 per unit
- Depreciation is on straight line method
- The cost of the project is sh 15000
- Tax rate is 30%
- The cost of capital is 15%

Required; calculate NPV, P.I and ARR (15 marks)

QUESTION FOUR

a) A company currently pays a dividend of sh 4 per share and this dividend is expected to grow at 12% for 4 years, 8% for the next 3 years after which it will fall to a constant rate of 7% thereafter. The cost of capital is 14%.

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

b) Biden expects to receive sh 200000 in 8 years. How much should he deposit each year at an interest rate of 18% to accumulate to the required amount. (4 marks)

c) Give reasons why a firm should value their securities (4 marks)

d) Distinguish between Ordinary shares and preference shares (4 marks)
