

CHUKA



UNIVERSITY

RESIT/SPECIAL EXAMINATIONS**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE****BCOM 231: BUSINESS FINANCE****STREAMS:****TIME: 2 HOURS****DAY/DATE: MONDAY 03/05/2021****2.30 P.M – 4.30 P.M****INSTRUCTIONS:****Question One**

- a) Discuss the importance of using financial ratios in analysing the performance of a business (8 marks)
- b) Explain the 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 A and B

		Project A	Project B
Initial cash outlay		180000	75000
Useful life of project			
Cashflows	1	20000	35000
	2	18000	15000
	3	15000	30000
	4	35000	22000
	5	35000	10000

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 XYZ Limited as at 31st December 2017

	shs `000`
Ordinary Share Capital (shs 25 par)	5000
Retained Earnings	4000
10% Preference Share Capital (shs 30 par)	4000
12% Debt (shs 150 par)	<u>4000</u>
	<u>17000</u>

Additional Information

- Corporate tax rate is 30%.
- Preference shares issued 10 years ago and are still selling at par value
- The debt has a 10 year maturity period. It is currently selling at sh. 150 in the market.
- Currently the firm pays dividends 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 50.

Required

- The cost of various components of capital (8 marks)
 - 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 Ukombozi Company Limited for the year ended 30th December 2018.

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 3 per share and this dividend is expected to grow at 18% for 4 years, 12% for the next 3 years after which it will fall to a constant rate of 8% thereafter. The cost of capital is 10%.

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

b) The following dividend pattern relates to Jambo limited for the last five years. Calculate the value of the share in the year 2020. If the cost of capital is 15% (5 marks)

Year	Dividend Per Share
2016	12.5
2017	8.0
2018	10.5
2019	12
2020	15

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

(4 marks)

d) Distinguish between discounting and compounding

(3 marks)
