

CHUKA



UNIVERSITY

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RESIT/SPECIAL EXAMINATION

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF
PROCUREMENT AND LOGISTICS MANAGEMENT, BACHELOR OF
COMMERCE AND BACHELOR OF COOPERATIVE MANAGEMENT**

BCOM 231: BUSINESS FINANCE**STREAMS:****TIME: 2 HOURS****DAY/DATE: MONDAY 01/11/2021****8.30 A.M – 10.30 A.M****INSTRUCTIONS:****Question One**

a) Agency problem exists when agents pursue their own interests rather than the interest of their principals. In light of this statement;

i) Discuss the reason for conflict between shareholders and auditors (8 marks)

ii) Explain the solution for conflict between shareholders and auditors (6 marks)

b) Explain the non-financial goals of a business organisation (6 marks)

c) The following information relates to the profits before depreciation and tax of project Mambo

		Project
Initial cost of project		350, 000
Useful life of project		5
Cashflows	1	80,000
	2	120,000
	3	60,000
	4	100,000
	5	110,000

Depreciation is charged on straight line basis, tax rate is 30% and the required rate of return for investors is 12%.

Required; calculate

i. Cash flows (5 marks)

ii. Net Present Value (4 marks)

- iii. Profitability Index (1 marks)

Question Two

a) The following is the capital structure of Sunny Investment Limited as at 31st December 2020

	shs `000`
Ordinary Share Capital (shs 30 par)	9000
Retained Earnings	5000
12% Preference Share Capital (shs 25 par)	6000
10% Debenture (shs 150 par)	<u>5000</u>
	<u>25000</u>

Additional Information

- i. Corporate tax rate is 30%.
- ii. Preference shares are currently selling at sh 30
- iii. The 10% debt has a 5 year maturity period. It is currently selling at sh. 110 in the market.
- iv. The firm currently pays dividends of of sh 8 per share and the dividend has been growing at 6%. 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) Outline the features of a good investment appraisal technique (6 marks)

Question Three

a) Leo intends to withdraw sh 525,000 at the end of 4 years. How much will he deposit to accumulate to this amount at an interest rate of 15% per annum (6 marks)

b) Explain the following sources of finance that can be used by an organisation (6 marks)

- i. Venture Capital
- ii. Retained Profits
- iii. Ordinary shares

d) The following dividend pattern relates to Ginger company limited. Calculate the value of the share in 2015, if the cost of capital is 25 % (8 marks)

Years	Dividends
2011	6
2012	6.85
2013	7.05
2014	8.25
2015	10.05

Question Four

a) A company currently pays a dividend of sh 8 per share and this dividend is expected to grow at 10% for 3 years, 15% for the next 2 years after which it will fall to a constant rate of 12% thereafter. The cost of capital is 15%.

Required: Determine the real value of the company’s share (8 marks)

b) A 12% sh 8000 bond is currently selling in the market for sh 12,000. The bond will mature in 5years. The cost of capital is 15%.

Determine the yield to maturity of the bond (3 marks)

Determine the value of the bond and advise management on whether to buy or sell the bond (4 marks)

c) Discuss the factors that affect the cost of finance (5 marks)
