

**PAN AFRICA CHRISTIAN UNIVERSITY**

**BACHELORS OF COMMERCE**

**END OF TERM EXAMINATION**

**DEPARTMENT: BUSINESS**

**COURSE CODE: /BUS 3213**

**COURSE TITLE: BUSINESS FINANCE**

**EXAM DATE:**

**TIME:**

**INSTRUCTIONS**

* Read all questions carefully before attempting.
* Answer any **Five** Questions.
* Write your **student number** on the answer booklet provided.

**QUESTION ONE**

1. Define agency relationship from the context of a public limited company (3 Marks)
2. Explain two ways in which agency relationship arises. (4 Marks)
3. Highlight **four** functions of a finance manager in a corporate firm (4 Marks)
4. Calculate the future value of shs.200,000 compounded at 8% p.a for 4 years if compounding is done
5. Half yearly (3 Marks)
6. Quarterly (3 Marks)
7. Monthly (3 Marks)

**QUESTION TWO**

Rafiki Hardware Tools Company Limited sells plumbing fixtures on terms of 2/10 net 30. Its financial statements for the last three years are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2010**  **Sh.’000’** | **2011**  **Sh.’000’** | **2012**  **Sh.’000’** |
| Cash  Accounts receivable  Inventory  Net fixed assets  Accounts payable  Accruals  Bank loan, short term  Long term debt  Common stock  Retained earnings  Additional information:  Sales  Cost of goods sold  Net profit | 30,000  200,000  400,000  800,000  1,430,000  230,000  200,000  100,000  300,000  100,000  500,000  1,430,000  4,000,000  3,200,000  300,000 | 20,000  260,000  480,000  800,000  1,560,000  300,000  210,000  100,000  300,000  100,000  550,000  1,560,000  4,300,000  3,600,000  200,000 | 5,000  290,000  600,000  800,000  1,695,000  380,000  225,000  140,000  300,000  100,000  550,000  1,695,000  3,800,000  3,300,000  100,000 |

**Required:**

1. For each of the three years, calculate the following ratios:
2. Acid test ratio (2 Marks)
3. Average collection period (2 Marks)
4. Inventory turnover (2 Marks)
5. Total debt/equity ratio (2 Marks)
6. Net profit margin (2 Marks)
7. Return on assets. (2 Marks
8. From the ratios calculated above, comment on the
9. Liquidity position of the company (2 Marks)
10. Profitability positions of the company (2 Marks)
11. List four limitations of using ratio analysis in the evaluation of the performance of a company. (4 Marks)

**QUESTION THREE**

The balance sheet of ABC Limited as at 31st Dec 2014 was as follows:

Net fixed assets 12,000 Ordinary share capital 8,000

Current assets 4,000 Retained earnings 5,000

12%debt 2,000

**16,000**

Current liabilities 1,000

**16,000**

Additional information

1. For the year 2014 sales amounted to 20,000. The sales are expected to increase  
by 40% during the year 2015.

2. The after tax profit on sales is 15%.

3. The firm has a dividend payout ratio of 70% which is expected to be maintained

during the year 2015.

Required:  
(i) Determine the external financial requirement of the firm. (7 Marks)

(ii) Prepare a proforma balance sheet as at 31/12/2015. (5 Marks)

(iii) State any assumptions made in your computations above. (2 Marks)

(b) Outline any 3 methods of forecasting. (6 Marks)

**QUESTION FOUR**

1. Although profit maximization has long been considered as the main goal of a firm, shareholder wealth maximization is gaining acceptance amongst most companies as the key goal of a firm. Distinguish between the goals of profit maximization and shareholder wealth maximization. (4 marks)
2. Discuss three advantages and three disadvantages of payback period method of capital budgeting. (6 Marks)
3. Discuss the attitudes investors have towards risk and return (6 Marks)
4. Calculate the present value of an investment which promises equal receipts of shs. 20,000  
   each year for the next 2 years if the discounting rate is 12% p.a assuming: The cash inflows are receivable at the end of each year (4 Marks)

**QUESTION FIVE**

1. Discus three characteristics of capital budgeting decisions (3 Marks)
2. Zawadi Ltd. is analyzing two mutually exclusive projects whose details are shown  
   below:-

Year Project A Project B

Cash Flow (Shs.) Cash Flow (Shs.)  
1 3,000,000 6,000,000  
2 1,000,000 5,000,000  
3 4,000,000 4,000,000  
4 5,000,000 3,000,000  
5 6,000,000 1,000,000

Addition Information  
1. The above cash flows have been acted on after-tax basis.  
2. Each of the projects will cost Shs. 10,000,000 at commencement. The company intends  
to raise this finance through an issue of debentures at an interest rate of 10% per annum.

**Required:**  
Advise the management of Zawadi Ltd. on which of the two projects to undertake using:

1. Payback period approach (5 Marks)
2. Net present value approach (7 Marks)
3. Profitability Index approach (5 Marks)

**QUESTION SIX**

As the financial analyst at PAC Ltd. you are conducting an analysis of four alternative  
investment projects. Each project has a holding period of one year. The estimated rates of return  
for three alternative states of the economy are show in the table below:

State of the Probability A B C D  
Economy

Recession 0.20 10% 5% 22% 5%  
Average 0.60 10% 11% 14% 15%  
Boom 0.20 10% 31% 4% 15%

**Required:**

1. Determine
2. The expected rate of return (4 Marks)
3. Variance ( 8 Marks)
4. Standard deviation (4 Marks )
5. Coefficient of variation for each project. (4 Marks)