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**PAN AFRICA CHRISTIAN UNIVERSITY**

**SCHOOL OF LEADERSHIP, BUSINESS AND TECHNOLOGY**

**END OF SEMESTER EXAMINATION FOR THE DEGREE OF**

**BACHELOR OF BUSINESS LEADERSHIP**

**BACHELOR OF BUSINESS INFORMATION TECHNOLOGY**

**BACHELORS OF COMMERCE**

**MAY – AUGUST 2018**

**CAMPUS: ROYSAMBU**

**DEPARTMENT: BUSINESS**

**COURSE CODE: BUS3213|BCM202|BIT302**

**COURSE TITLE: BUSINESS FINANCE**

**EXAM DATE: TUESDAY 14TH AUGUST 2018**

**TIME: 2:00PM-5:00PM**

**INSTRUCTIONS**

* Read all questions carefully before attempting.
* Write your **student number** on the answer booklet provided.
* This examination script consists of S**ix (6)** questions.
* Answer **question ONE** and **ANY** other **four** Questions.
* Show all your workings
* *Write clearly and legibly.*
* *ALL PAC University’s examination rules and regulations apply*

**QUESTION ONE: COMPULSORY**

1. Explain the following terms:
2. Diversification (3marks)
3. Owner’s wealth (3marks)
4. Opportunity cost of capital (3marks)
5. Internal Rate of Return (3marks)
6. Distinguish between the following terms:
7. Compound rate and discount rate (4 Marks)
8. Systematic risk and unsystematic risk (4 Marks)
9. Risk averse and risk preference (4 Marks)
10. James has an option of either receiving Ksh 2000 cash today or Ksh 3500 in two years’ time at an interest rate of 10%. Advise him (show your workings) (6 Marks)
11. Explain five ways in which a company benefits from sourcing capital from the bank in the form of loan rather than issuing new ordinary shares (10 Marks)

**QUESTION TWO**

DIKEL Co. is considering investing in two projects, A and B. Each of them requires an investment of Sh400,000. Unfortunately, the company does not have enough funds to invest in both projects. The finance officer has identified two sources of finance to finance these projects which include: Issue of ordinary shares/stock (Equity) and a bank loan. The ordinary stock has a beta of 1.2, market return of 11% and a risk free rate of 7%. The bank loan (Debt) is charged an interest rate of 14%. The company’s tax rate is 30%. The proportion of bank loan fund is 40%. Future cash inflows of the projects have been projected as follows:

Project A: Year 1 Sh250,000, Year 2 Sh120,000, Year 3 Sh180,000.

Project B: Year 1 Sh150,000, Year 2 Sh260,000, Year 3 Sh 250,000.

Determine:

1. The cost of equity (Ke) (2 Marks)
2. The cost of debt (Kd) (1 Marks)
3. The weighted Cost of Capital (Ko) (3 Marks)
4. Use the, Ko, calculated in (c) above to determine:
5. The discounted Payback period of each project. (4 Marks)

Which is viable? Provide a reason (1 Marks)

1. The Net Present Value (NPV). (3 Marks)

Which is viable? Provide a reason (1 Marks)

**QUESTION THREE**

The following data for assetsM and N has been extracted from financial books of TINTA enterprises.

**Condition Probability (%) Returns (%)**

**J K**

Very good 0.2 9 13

Good 0.3 6 10

Neutral 0.2 3 8

Bad 0.2 -2 -2

Very bad 0.1 -1 -5

Determine:

1. The expected returns of each asset (2 Marks)
2. The standard deviation of each asset (4 Marks)
3. The expected portfolio returns if asset J has a proportion of 85% (3 Marks)
4. If you were a risk averse investor, which asset(s) would you choose and justify

(2 Marks)

1. Explain three assumptions of Capital Asset Pricing Model (CAPM) (6 Marks)

**QUESTION FOUR**

1. Highlight three limitations of financial ratios (3 Marks)
2. Discuss how the following sources of finance differ:
3. Preference capital and debentures (6Marks)
4. Venture investors and ordinary capital (6 Marks)

**QUESTION FIVE**

1. Giving relevant examples, explain how a finance officer ensures that the owner’s wealth is maximized (7 Marks)
2. Discuss four factors affecting the choice of sources of finance (8 Marks)

**QUESTION SIX**

The following financial information was obtained from the books of BEPTA Co. 31 Jan 2018. Most of the transactions were on credit. Assume 360 days in a year.

Gross Profit Margin Sh 156,000

Gross Profit Margin Ratio 39%

Wages& Salaries Sh 39,600

Rent Sh 8,200

Motor Expenses Sh 1490

Credit Purchases 58% of Cost of sales

Creditors/Payables days 30

Current Assets Sh 132,036

Stock/Inventory Sh 89,404

Cash Sh 4,532

Van Sh 5,650

Office Equipment Sh 7,470

Bank loan (6 years) Sh 3,750

Debt to Equity ratio 0.6

**Required:**

Determine:

1. Net Profit/Income Margin Ratio (4marks)
2. Creditors/Payables (3marks)
3. Return on Capital Employed (2marks)
4. Quick Acid Test Ratio (2marks)
5. Shareholder’s Equity (4marks)