PAN AFRICA CHRISTIAN UNIVERSITY

SCHOOL OF LEADERSHIP, BUSINESS AND TECHNOLOGY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

BACHELOR OF BUSINESS LEADERSHIP

BACHELOR OF BUSINESS AND INFORMATION TECHNOLOGY

SEPTEMBER -DECEMBER 2025 TRIMESTER

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS

COURSE CODE: BIT302|BCM202|BUS3213

COURSE TITLE: BUSINESS FINANCE

EXAM DATE: MONDAY 8TH DECEMBER 2025

TIME: 5:00PM-7:00PM

INSTRUCTIONS

- Write your **student number** on the answer booklet provided.
- Read all questions carefully before attempting.
- This examination script consists of **SIX (6)** questions.
- Answer question **ONE** and ANY other **THREE** Questions.
- ALL other PAC University examinations rules and regulations apply

Question One (Compulsory) (15 Marks)

i. Explain time value of money. USE A SUITABLE ILLUSTRATION. (2 marks)

ii. Give **five** reasons of preferring current cash to future cash (5 marks)

iii. Discuss the application of the concept of time value of money in finance. (8 marks)

Question Two (15 marks)

a. Discuss **five** differences between debentures and retained earnings, as sources of income in business finance. (5 marks)

b. The following information relates to ABC Ltd for the last quarter of 2021.

- Ordinary share capital of 200,000 at shs. 10 each
- Net profit after tax of shs. 1,000,000
- Ordinary share dividend of shs. 400,000
- Market share price of shs. 20 per share

Using the information above, calculate each of the following ratios:

i. Dividend per share (2 Marks)

ii. Earnings per share (2 Marks)

iii. Dividend yield (3 Marks)

iv. Earnings yield (3 Marks)

Question Three (15 marks)

a. State **four** underlying assumptions when applying WACC as the discounting factor in investment appraisals. (4 marks)

b. The following information is extracted from the financial statements of ABC Holdings PLC as at 31st December 2023:

1) Issued share capital of ABC is Kshs.500 million and it comprises with 1,000,000 ordinary shares. ABC is a listed company in Colombo Stock Exchange (CSE) and the last traded price of an ordinary share was Kshs. 750/-. The dividend paid for the year just ended was Kshs. 80/- per share and growth rate of annual dividend payment is 5%.
2) The retained earnings of JPL were Kshs.150 million.

3) ABC has issued irredeemable preference shares for a value of Kshs. 100 million. This consists of 500,000 preference shares and annual dividend per share is Kshs. 28/-. The last traded price of a preference share was Kshs.280/-.
4) Irredeemable, non-quoted long term borrowings of JPL were Kshs.110 million with annual interest rate of 15%.
5) ABC is liable for income tax at the rate of 28% per annum on its profits. You are required to,

a. Compute the following:

i. Cost of ordinary share capital. (3marks)

ii. Cost of preference share capital. (2 mark)

iii. Cost of debt. (2 mark)

iv. Weighted average cost of capital (WACC). (4 marks)

Question Four (15 marks)

A working capital policy of any business is critical to its viability as a going concern. The board

of directors would ignore the information of such a policy to its great disadvantage.

The finance director of Watu Limited is formulating the company's capital policy for next year.

Sales have been protected at Sh.240 million next year. Three alternative policies are under

consideration as follows:

1. Maintain current asset level at 40 per cent of projected sales.
2. Maintain current asset level at 50 per cent of projected sales.
3. Maintain current asset level at 60 percent of projected sales.

Required:

Discuss the expected impact of policies (1) and (3). (15 marks)

Question Five (15 marks)

a. 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 wealth maximization. (5 marks)

b. Explain **five** key roles of a capital market regulator in Kenya. (10 marks)

<u>Question Six (15 marks)</u>

a. Explain the use of each of the following ratios in making business decision:

   i. Return on capital employed (ROCE) (2 marks)
   ii. Net asset turn-over (2 marks)
   iii. Current ratio (2 marks)
   iv. Gearing ratio (2 marks)
   v. Earnings per share (2 marks)

b. Discuss five functions of financial intermediaries in an economy. (5 marks)