



REFORMED CHURCH UNIVERSITY

FACULTY OF COMMERCE

**BACHELOR OF COMMERCE HONOURS DEGREE IN BUSINESS
MANAGEMENT**

BUSINESS FINANCE

HBUM 235

PART 2 SEMESTER 1

Total Marks [100]

DATE: JUNE 2024

Time: 3 Hours

INSTRUCTIONS

1. This paper has *six (6)* questions
2. Answer question *one (1)* and *any* other **three (3)**
3. Each question carries *25 marks*
4. Start each question on a new page

1. Explain the three key business decisions in corporate finance and their significance in the financial management of organizations. (25 marks)

2. a) Calculate the market price for a 20-year bond with a nominal value of \$1,000. Coupon interest will be paid at a rate of 15% semi-annually. The yield to maturity for this type of bond is 12%. (10 marks)

- b) Explain the following terms as they are used in equity valuation:
 - i. Constant Growth Model (5 marks)
 - ii. Current price (P_0) (5 marks)
 - iii. Dividend (5 marks)

3. Discuss the role of investment banks and financial advisors in M&A transactions. Explain the services provided by these professionals and the value they bring to the M & A process. (25 marks)

4. Find the values for the following:
 - a) An initial \$500 for 1 year at 6 percent compounded annually. (3 marks)
 - b) An initial \$600 for 2 years at 6% percent compounded monthly. (3 marks)
 - c) The present value of \$500 due in 1 year at a discount rate of 6 percent. (3 marks)
 - d) The present value of \$500 due in 2 years at a discount rate of 6 percent.(3 marks)
 - e) You have been hired as a financial advisor to Michael Jordan. He has received two offers for playing professional basketball and wants to select the best offer, based on considerations of money only. Offer A is a \$10m offer for \$2m a year for 5 years. Offer B is a \$11m offer of \$1m a year for four years and \$7m in year 5. What is your advice if money is worth 8% compounded quarterly? (8 marks)
 - f) You owe a loan of \$8,000. How much must be your first repayment if you plan to repay daily (365 payments beginning in 10 days) and increase each payment by 0.01%. Assume your lender charges you 25% interest per year. (5 marks)

5. Compare and contrast different capital structure decisions, highlighting the advantages and disadvantages of each and how they impact a company's risk and return profile. (25 marks)

6. Explain the concept of dividend policy and its importance in financial management. (25marks)

END OF PAPER