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: DECEMBER 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 primary objectives of financial management in an organization citing how these objectives contribute to the overall success and sustainability of the company (25 marks)
2. (a) Giving practical examples, examine any **three** key ratios in financial statement analysis (9 marks)

   (b) Consider the following information for XYZ

Sales	$2430
Less variable cost	$610
Less fixed cost	$700
EBIT	$1120
Less Interest	$800
Profit Before Tax	$320

   (c) Calculate the percentage change in Earnings per Share (EPS) if sales increase by 6% in the company. (10 marks)

   (d) Explain **any three** components of market interest rates. (6 marks)

3. 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)

4(a) Consider a sum of $15000. Which of the following options will provide the highest return over a 3 year period?

i. Invest at 10% per annum. (4 marks)
ii. Invest at 9% per annum, compounded semi-annually. (4 marks)
iii. Invest at 8% per annum, compounded quarterly. (4 marks)
iv. Invest at 7% per annum, compounded monthly. (4 marks)

(b) A firm issued 10% preference shares to raise funds. The shares have a par value of $100 each and are currently selling at $110 each. The minimum required rate of return by the investors is 8%.

Required:
Explain whether the share is overvalued or undervalued by the market. (9 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. You are a financial analyst for Takaenda Group. The director of Capital Budgeting has asked you to analyse 2 proposed capital investments, Projects A and B. Each project has a cost of $10 000, and the cost of capital for each project is 12%. The project's net cash-flows are as follows:

	EXPECTED NET CASHFLOW	
Year	Project A	Project B
0	(10 000)	(10 000)
1	6 500	3 500
2	3 000	3 500
3	3 000	3 500
4	1 000	3 500

Calculate the following for each project:

a) Pay Back period (8 marks)
b) Net Present value (NPV) (10 marks)
c) Internal Rate of Return (IRR) (4 marks)
d) Discuss the rationale behind the use of IRR in evaluating projects. (3 marks

END OF PAPER