



*Investing in Africa's Future*

**COLLEGE OF BUSINESS, PEACE, LEADERSHIP AND GOVERNANCE**

**NMAC 204: BUSINESS FINANCE**

**END OF FIRST SEMESTER EXAMINATIONS**

**NOVEMBER 2022**

**LECTURER: DR. J.BVIRINDI**

**DURATION: 3 HOURS**

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## **INSTRUCTIONS**

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- 1. ANSWER FOUR QUESTIONS**
  - 2. CREDIT WILL BE GIVEN FOR LOGICAL, SYSTEMATIC AND NEAT PRESENTATION**
  - 3. START EACH QUESTION ON A NEW PAGE IN YOUR ANSWER BOOK**
  - 4. MARKS ALLOCATED TO EACH QUESTION ARE SHOWN AT THE END OF THE QUESTION.**
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## QUESTION 1

Business finance is concerned with the efficient acquisition and deployment of both short and long-term financial resources to ensure the objectives of the enterprise are achieved.

Discuss in detail at least four key decision areas that management must focus on to meet the firm's objectives. **(25 marks)**

## QUESTION 2

A company has many financing options at its disposal. Explain in detail :

- (1) sources of long and short-term finance options,
- (2) the advantages and disadvantages of each finance option. **(25 Marks)**

## QUESTION 3

Compute the future values utilizing a time preference rate of 9 per cent:

- (i) The future value of US\$ 16,000 invested now for a period of four years. **(5 Marks)**
- (ii) The future value at the end of five years of an investment of US\$ 8,000 now and of an investment of US\$ 8,000 one year from now. **(10 Marks)**
- (iii) The future value at the end of eight years of an annual deposit of US\$18,000 each year. **(5 Marks)**
- (iv) The future value at the end of eight years of an annual deposit of US\$ 18,000 at the beginning of each year. **(5 Marks)**

## QUESTION 4.

**(a).** Calculate the present value of the cash inflows of US\$ 3000 at the end of each year for next 4 years and US\$ 7,000 and US\$ 1,000 respectively at the end of years 5 and 6. The appropriate discount rate is 14 per cent. **(10 Marks)**

**(b)** Compute *the present value of US\$ 4,000* cash inflow at the beginning of each of the next five years **at a discount rate of 13 per cent.** **(5 Marks)**

**(c)** The Cell Company has a perpetual bond that pay US\$ 160 interest annually. The current yield on this type of bond is 14 per cent.

- (1) At what price will it sell? **(5 Marks)**
- (2) If the required yield rises to 18 per cent, what will be the new price? **(5 Marks)**

**Question 5.**

The following are the net cash flows of an investment project:

<i>Cash Flows (US\$)</i>		
<i>C<sub>0</sub></i>	<i>C<sub>1</sub></i>	<i>C<sub>2</sub></i>
– 5,400	+ 3,600	+ 14,400

Calculate the net present value of the project at discount rates of 9, 12, 16, 20 and 25 per cent. **(25 Marks)**

**Question 6**

Assume that you are given a choice between incurring an immediate outlay of US\$ 10,000 and having to pay US\$ 2,310 a year for 5 years (first payment due one year from now); the discount rate is 11 per cent. What would be your choice? Will your answer change if US\$ 2,310 is paid in the beginning of each year for 5 years? **(25 Marks)**

**END OF PAPER**