

BOTSWANA COLLEGE OF DISTANCE AND OPEN LEARNING

DIPLOMA IN BUSINESS MANAGEMENT

**BUSINESS FINANCE
BF 101**

Sessional Examination

Time: 3 Hours

Marks: 100

Instructions

1. The examination consists of **Three** sections: A, B, and C.
2. Begin each answer to a new question on a new page.
3. Answer questions according to instructions given in each section.
4. Write answers in the answer booklet provided.
5. Write in grammatical English.

Section A – Multiple Choice Questions

[10 Marks]

Answer ALL questions. Each question carries ONE (1) mark.

1. Which of the following is not a primary role of the Finance Manager?

- A. Create Wealth for the business.
- B. Identify funds to finance the investment
- C. Recognizing revenue and expenses at the time of occurrence.
- D. Putting the funds into effective use.

2. Working Capital is _____.

- A. Current Assets – Stock – Current liabilities
- B. Currents Assets – Current liabilities
- C. Total Assets – Total liabilities
- D. Liquid Current Assets – Current liabilities

Use the statement given below to answer questions 3 and 4.

A company sells on 1/20 net 60 credit basis. Rose buys goods on these terms worth P1000.

3. How much discount will Rose deduct if she pays on day 20?

- A. P 200
- B. P 20
- C. P 100
- D. P10.

4. How many extra days of credit will Rose gain if she forgoes the cash discount?

- A. 40days
- B. 60 days
- C. 20 days
- D. 10 days

5. One important feature of a limited company is it will usually continue to exist even after the death of its shareholder(s). This is called _____.

- A. Transferability
- B. Separate Legal Entity
- C. Limited liability
- D. Perpetual life.

6. The time taken by a firm to convert its resources to cash is called _____.

- A. Operating Cycle
- B. Cash Conversion Cycle
- C. Average collection period
- D. Average Age of Inventories

7. What is the effect on the cost of debt if corporate tax increases?

- A. It decreases
- B. It increases
- C. It stays the same
- D. It multiplies by a factor.

8. What is the present value of P1250 to be received each period forever if the interest rate is 5%.

- A. P 24 750
- B. P 25 000
- C. P 24 000
- D. P 25 250

9. A good Capital structure is the one that _____.

- A. Is not easy to change
- B. Puts excessive risks on the shareholders.
- C. Increases the debt capacity of the firm
- D. Maximises shareholders' benefit.

10. Beta value is a relative measure of _____.

- A. Diversifiable risk
- B. Unsystematic risk
- C. Non-diversifiable risk
- D. All types of risks.

SECTION: B. Answer all questions from this Section. [40 MARKS]

1. What are the main functions of a Financial Manager in a business? **(5 marks)**
2. (a) Define Internal Rate of Return. **(2 marks)**
(b) State three advantages of evaluating IRR **(3 marks)**
3. State the differences between Systematic and Unsystematic risks. **(6 marks)**
4. What is the present value of perpetuity of P 10000 if the interest rate is 10%?
What would happen to the perpetuity if the interest rate doubles to 20%? **(5 marks)**
5. "There are several costs that are associated with getting and using funds."
List and explain these costs with examples. **(9 marks)**
6. Discuss any **five** differences between Private and Public limited Companies. **(10 marks)**

SECTION: C. Answer any TWO questions from this section. [50 MARKS]

- I. A company has the following mix of capital:
 - 20 000 ordinary shares of market value of P 2 each.
 - A dividend of 14% was paid.
 - 5 000 preference shares value of P10 each. The shares have a rate of 18%.
 - **10% short-term bank loan of P40 000.**
 - Tax rate of 25%
- (a) Determine the Weighted Average Cost of Capital for the Company using percentage method. **(9 marks)**

- (b) Differentiate between operating leverage and financial leverage. **(2 marks)**
- (c) (i) Explain Capital Structure. Describe the kind of capital structure that you would consider optimum. **(8 marks)**
(ii) Explain how PBIT-EPS approach and the trade off theory. Support the structure you have described above. **(6 marks)**

2. Write short notes on the following:

- (a) Debt factoring **(5 marks)**
- (b) Liquidity Ratios **(5 marks)**
- (c) CAPM **(5 marks)**
- (d) Trading on equity **(5 marks)**
- (e) Bank overdraft **(5 marks)**

3. (a) Why is after tax cost of debt used than the raw cost of debt, in determining WACC? **(3 marks)**
- (b) (i) What is Stock Exchange? **(2 marks)**
(ii) State **two** advantages and **two** disadvantages of listing a business on the stock exchange. **(4 marks)**
- (c) Briefly discuss any **two** internal sources of finance. **(8marks)**
- (d) (i) What is loan covenant? **(2 marks)**
(ii) State and explain any **three** items that should be included in a loan covenant. **(6 marks)**