



MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

SECOND YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 204 BUSINESS FINANCE II

DATE:

TIME:

INSTRUCTIONS:

Answer question one and any other two questions.

QUESTION ONE (30 MARKS)

- a) Discuss any three characteristics of long-term investments (6 marks)
- b) Lindeman's Ltd wants to expand its factory to take advantage of the increased demand for its products. It is proposed that this will cost Ksh.100,000 and generate after-tax cash inflows of Ksh. 235,000, Ksh. For 8 years. You are required to determine Lindeman's payback period. (6 marks)
- c) Discuss the merits and the demerits of Internal Rate of Return (6 marks)
- d) Suppose the ABC company can issue bonds with a face value of Ksh.1000, a coupon of rate 5% (paid semi-annually), and 10years to maturity at Ksh.980 per a bond. If ABC Company's marginal tax rate is 30%. What is the cost of debt? (6 marks)
- e) Suppose Plum Ltd will raise capital in the proportions; debt 40%, preferred stock 10% and common stock 12%. What is Plum's weighed average cost of capital (WACC) if its cost of debt3.6%, its cost of preferred stock is 8% and its cost. (6 marks)

QUESTION TWO (20 MARKS)

Zee Company is evaluating the following seven investment proposals. The company has capital expenditure of ceiling of Ksh. 2000000 and therefore can accept just enough proposals Cost of capital is 12%

| Project | Cash outlay (ksh. "000") | NPV(ksh."000") |
|---------|--------------------------|-----------------|
|---------|--------------------------|-----------------|

Examination Irregularity is punishable by expulsion

| | | |
|---|------|-----|
| O | 100 | 18 |
| P | 500 | 80 |
| Q | 200 | 40 |
| S | 600 | 36 |
| T | 1000 | 250 |
| U | 800 | 180 |
| V | 400 | 40 |

You are required:

- a) To rank the proposals according to profitability index and indicate the group of proposals to be accepted (10 marks)
- b) If projects T and U were mutually exclusive, would this change your answer to (a) above? If yes indicate which projects would be accepted. If no, why? (10 marks)

QUESTION THREE (20 MARKS)

- a) Identify and explain clearly any five factors that determine the capital structure of any firm (5 marks)
- b) For each of the following companies described below, state whether and why you would expect it to have high or low dividends payments out ratio:
 - i. A company with a large proportion of inside ownership, all of whom are high income individuals (1 mark)
 - ii. A growth company with an abundance of good investment opportunities (1 mark)
 - iii. A company experiencing ordinary growth that has high liquidity and much unused borrowing capacity (1 mark)
 - iv. A dividend-paying company that experience an unexpected drop in earnings from trend (1 mark)
 - v. A company with volatile earnings and high business risk (1 mark)
- c) A Ltd issues Ksh. 100,000, 9% debenture at a premium of 10%. The costs of floatation are 2%. The tax rate applicable is 50%. You are required to determine the cost of debt capital (6 marks)

QUESTION FOUR (20 MARKS)

- a) Explain the following Dividend Theories:
 - i. Trade Off Theory
 - ii. Bird-In-Hand Theory
 - iii. Pecking Order Theory

- iv. Clientele Effect
- v. Signalling Hypothesis (10 marks)

b) The Balance Sheet of X Ltd. For the year ended December 31, 2019 is given below:

| Liabilities | Ksh. | Assets | Ksh. |
|----------------------|-------|------------------|-------|
| Equity share capital | 55000 | Fixed assets | 35000 |
| Debentures | 6000 | Stock | 15000 |
| Retained earnings | 4000 | Bills receivable | 5000 |
| Bills payable | 2000 | Debtors | 5000 |
| Creditors | 3000 | Cash and Bank | 10000 |
| Total Liabilities | 70000 | Total Assets | 70000 |

From the above information you are required to calculate the Capital and Financial structures for X Ltd (10 marks)

QUESTION FIVE (20 MARKS)

a) ABC Ltd, needs Ksh 3000000 for the installation of a new factory. The new factory expects to yield annual earnings before interest and tax (EBIT) of Ksh. 500000. In choosing a financial plan, ABC Ltd has an objective of maximizing earnings per share (EPS). The company proposes to issuing ordinary shares and raising debt of Ksh. 300000, Ksh. 1000000 and Ksh. 1500000. The current market price per share is Ksh. 250 and is expected to drop to Ksh. 200, if funds are borrowed in excess of Ksh. 1200000. Funds can be raised at the following rates:

Up to Ksh.300000@ 8%

Over Ksh. 300000 to Ksh. 1500000 @ 10%

Over Ksh. 1500000 @ 15%

Assuming corporation tax rate of 30%, advise the company (12 marks)

- b) Why is working capital management important to a firm? (4 marks)
- c) What is capital budgeting and is its significance in a firm? (4 marks)



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SECOND YEAR SECOND SEMESTER EXAMINATION FOR

DIPLOMA IN ACCOUNTANCY

DACC 210: ADVANCED FINANCIAL ACCOUNTING

DATE: 19/10/2020

TIME: 8:30 -10:30 AM

INSTRUCTIONS:

Answer question one and any other two questions.

QUESTION ONE (30 MARKS)

- a) Explain the following concepts as used in insurance accounting:
- i) Amount of indemnity (4 marks)
 - ii) Period of indemnity (4 marks)
 - iii) Insurable interest (4 marks)
 - iv) Average clause (4 marks)
- b) Describe the following terms business amalgamation:
- i) Acquisition accounting method (4 marks)
 - ii) Merger accounting method (4 marks)
- c) Explain the main provisions of Bankruptcy Act (cap 53) of Kenya (6 marks)

QUESTION TWO (20 MARKS)

Because of heavy fire in the go down of a company on October 1, 2019, the whole stock was burnt except some costing Ksh.35000. The books were however saved. From the information available, it was found that:

1. The company's average profit was 25% on sales
2. The stock on March 31,2019 valued at 10% above cost was Ksh. 110000
3. The purchase and sales from April 1, 2019 up to the date of fire were Ksh. 150000 and Ksh. 340000 respectively.

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4. The wages for the period amounted to Ksh. 72000
5. The company insured the stock for Ksh.60000
6. The policy had an average clause

You are required to prepare a statement showing the amount of stock lost by fire and the amount of claim to be lodged with the insurance company

QUESTION THREE (20 MARKS)

- a) Explain in details the main components of the Bankruptcy accounts (12 marks)
- b) Discuss the procedure adopted in the merger method of accounting (8 marks)

QUESTION FOUR (20 MARKS)

- a) Opening stock and closing stock of the last year were Ksh. 9000 and Ksh. 18000 respectively, being valued at 10% below cost. You are required to calculate the adjusted opening and closing stocks (8 marks)
- b) Discuss the various types trustees available in Kenya (12 marks)

QUESTION FIVE (20 MARKS)

Robert died on January 1,2019 and by his will, he left his house to his wife for her life, and on her death, to his eldest son Tom absolutely. He left the residue of his estate to be held on trust for the benefit of his wife for life, and on her death, to be shared amongst his other children Njeri, Wanjiru, Wambui, Kamau, and Mwaura. His will gave no directions as to the investment of trust funds.

On January1, 2019, his house was valued at Ksh. 1300000. He held 10000 shares in Safari com valued at Ksh. 42-48 and Ksh. 500000, nominal 12% Kenya Government Stock valued at Ksh. 90-92 and Ksh. 250000 in the bank. His debts and funeral expenses amounted to Ksh. 30000.

On July 1, 2019 Safari com shares were quoted at Ksh. 48-50 and the 12% Kenya Government stock was quoted at Ksh. 88-92.

You are required to show the Estate Capital Account and Balance Sheet as at July 1, 2019.