



# MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year  
SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

THIRD YEAR FIRST SEMESTER EXAMINATION FOR

DIPLOMA IN ACCOUNTANCY

BUSINESS FINANCE

DATE: 3/11/2020

TIME: 8:30 – 11:30 AM

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## INSTRUCTIONS:

Answer any three questions

### QUESTION ONE

The following is the capital structure of XYZ Ltd as at 31/12/2002.

	Shs.M
Ordinary share capital Sh.10 par value	400
Retained earnings	200
10% preference share capital Sh.20 par value	100
	<u>200</u>
12% debenture Sh.100 par value	<u>900</u>

### Additional information

1. Corporate tax rate is 30%
2. Preference shares were issued 10 years ago and are still selling at par value MPS = Par value
3. The debenture has a 10 year maturity period. It is currently selling at Sh.90 in the market.
4. Currently the firm has been paying dividend per share of Sh.5. The DPS is expected to grow at 5% p.a. in future. The current MPS is Sh.40.

### Required

- a) Calculate component cost of ordinary shares, preference shares and debentures
- b) Determine the WACC of the firm.
- c) What are the weaknesses associated with WACC when used as the discounting rate, in project appraisal.

### QUESTION TWO

Jeremy limited wishes to expand its output by purchasing a new machine worth 170,000 and installation costs are estimated at 40,000/=. In the 4<sup>th</sup> year, this machine will call for an overhaul to cost 80,000/=. Its expected inflows are:

	Shs.
Year 1	60,000
Year 2	72,650
Year 3	35,720
Year 4	48,510
Year 5	91,630
Year 6	83,715

This company can raise finance to purchase machine at 12% interest rate.  
Compute NPV and advise management accordingly.

### QUESTION THREE

Highlight the role of stock exchange in economic development

### QUESTION FOUR

A project costs Sh.80, 000 and will generate the following cash inflows:

#### Cash inflows

Inflows year 1 =	10,000
Inflows year 2 =	30,000
Inflows year 3 =	15,000
Inflows year 4 =	20,000
Inflows year 5 =	30,000

### CALCULATE

- a) Payback period

b) Advantages of Payback Period