



MACHAKOS UNIVERSITY

University Examinations for 2021/2022 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

SECOND YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF COMMERCE

BACHELOR OF ECONOMICS

BAC 203: BUSINESS FINANCE 1

DATE: 7/12/2021

TIME: 2.00-4.00 PM

INSTRUCTIONS:

Answer question one, and any other two questions

- a) Explain the various needs in a business entity, for which funds may be required. (6 marks)
- b) On the basis of the sources of business finance, suggest suitable options to solve the financial problem of the restaurant owner. (6 marks)
- c) Mr. Miginga purchased shares in January 2018 for Ksh.50, 000. As at 31st December 2018, the market value of the shares was Ksh.53750. During the year 2018, the shares generated after tax cash receipts of Ksh.2000. Calculate the total rate of return on this investment. (6 marks)
- d) Jane invested Ksh. 10,000 in a bank at simple interest of 7% per annum, what will be the amount at the end of three years. (6 marks)
- e) “The computation of the cost of capital is an important part of financial management in deciding the capital structure of a business concern”
Based on the above statement, discuss the importance of cost of capital to a business entity. (6 marks)

QUESTION TWO (20 MARKS)

The following relates to two securities (security Y and Z) being offered for subscription with their respective characteristics.

State of the Economy	Possibility of occurrence	Security Y	Security Z
S	0.15	10%	25%
T	0.25	15%	10%
U	0.2	30%	15%
V	0.25	25%	40%
W	0.15	20%	10%

- (a) Calculate the expected return on each security. (6 marks)
- (b) Calculate the standard deviation of the returns on security Y and Z. (10 marks)
- (c) Which security do you recommend for investment by an investor and why? (4 marks)

QUESTION THREE (20 MARKS)

- a) The cost of specific sources of capital for Bharat Limited are:

$$K_e = 16.0$$

$$K_p = 14.0$$

$$K_d = 12$$

The market value proportions of equity, preference and debt are:

$$W_e = 0.60$$

$$W_p = 0.05$$

$$W_d = 0.35$$

The tax rate for Bharat Limited is 30%.

Calculate the Weighted Average Cost of Capital (WACC) for Bharat Limited

(8 marks)

- b) Describe various classifications of cost of capital (12 marks)

QUESTION FOUR (20 MARKS)

- a) Discuss the different techniques of financial statements analysis and briefly explain the limitations of financial statements analysis. (12 marks)
- b) Suppose you would like to have Ksh. 25,000 saved for six years from now to pay towards your down payment on a new house. If you are going to make equal annual end of year payments to an investment account that pays 7%, how big do these annual payments need to be? (8 marks)

QUESTION FIVE (20 MARKS)

“Although profit maximization has long been considered as the main goal of a firm, shareholder wealth maximization is gaining acceptance amongst most firms as the key goal of a firm”

- (a) Distinguish between the goals of profit maximization and shareholder wealth maximization. (14 marks)
- (b) Explain three limitations of the goal of profit maximization. (6 marks)