



MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

SECOND YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS

BACHELOR OF COMMERCE

BAC 203: BUSINESS FINANCE I

DATE: 17/8/2021

TIME: 2.00-4.00 PM

INSTRUCTIONS:

Answer question ONE and any other TWO questions

QUESTION ONE (COMPULSORY) (30 MARKS)

- Discuss five problems sole traders encounter in a bid to raise finance on Kenya's financial markets. (5 marks)
- Explain four classifications of ratios used in ratio analysis. (8 marks)
- Justify why money today and in the past is worth than the same money in the future. (6 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
U	0.25	10%	25%
V	0.25	15%	10%
W	0.2	20%	15%
X	0.3	25%	30%

- Calculate the expected return on each security. (3 marks)
- Calculate the standard deviation of the returns on security Y (3 marks)
- Calculate the standard deviation of the returns on security Z (3 marks)
- Which security do you recommend for investment by an investor and why?(2 marks)

QUESTION TWO (20 MARKS)

- a) Explain the following risk behaviours:
- i. Risk averse (2 marks)
 - ii. Risk indifference (2 marks)
 - iii. Risk seeking (2 marks)
- b) Explain the term annuity as used by financial analysts (2 marks)
- c) Outline four objectives of a firm which conflict; explain the conflicts that is experienced in the attainment of the objectives outlined. (8 marks)
- d) Ramanuji Ltd. Issues Ksh. 100,000, 8% debentures at a premium of 10%. The tax rate applicable to this company is 30%. You are required to calculate the cost of the company's capital (4 marks)

QUESTION THREE (20 MARKS)

- a) Briefly discuss the term "Weighted Average Cost of Capital" (WACC) (4 marks)
- b) Plum Computer Company has the following structure of the different sources of funds used:

Source of funds	Amount Ksh.	Proportion %	after tax %
Debt	12000	20	4
Preference shares	15000	25	8
Equity shares	18000	30	12
Retained earnings	15000	25	11
Total	60,000	100	

You are required to calculate the Weighted Average Cost of Capital (WACC) for Plum Computer Company. (16 marks)

QUESTION FOUR (20 MARKS)

- a) Discuss the three main causes of financial risk (4 marks)
- b) Janet invested Ksh.2000 at annual rate of interest of 10%. What is the amount after two years if the compounding is done?
- i. Annually (4 marks)
 - ii. Semi-annually (4 marks)
 - iii. Monthly (4 marks)
 - iv. Daily (4 marks)

QUESTION FIVE (20 MARKS)

- a) Discuss the commonly used types of financial statement analysis (12 marks)
- b) Vicky purchased shares in January 2020 for Ksh. 50,000, the market value of the shares was Ksh. 53,750. During the year 2020 the shares generated after tax cash receipt of Ksh. 2,000. Calculate the total rate of return on this investment (8 marks)