



MACHAKOS UNIVERSITY

University Examinations 2021/2022 Academic Year

SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM
MANAGEMENT

DEPARTMENT OF BUSINESS ADMINISTRATION AND FINANCE

SECOND YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 203 BUSINESS FINANCE 1

DATE: 31/8/2022

TIME: 11.00-1.00 PM

INSTRUCTIONS

- Answer question **ONE (Compulsory)** and any other **TWO** questions

QUESTION ONE(COMPULSORY) (30MARKS)

- a) Giving examples, explain three sources of financing a micro enterprise (6 marks)
- b) Explain four reasons why money in the future is worth less than similar money than today and the past (8 marks)
- c) Explain the following risk behaviours:
- Risk averse (2 marks)
 - Risk indifference (2 marks)
 - Risk seeking (2 marks)
- d) Explain the term annuity as used by financial analysts (4 marks)
- e) 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 (8 marks)

QUESTION TWO (20 MARKS)

- a) What is ratio analysis? (2 marks)
- b) Explain the types of ratio analysis (18 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	60000	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 various types of financial statement analysis used commonly (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. You are required to calculate the total rate of return on this

investment
marks)

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