MACHAKOS UNIVERSITY COLLEGE

(A Constituent College of Kenyatta University)
University Examinations for 2015/2016 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

(MLOLONGO CAMPUS)

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCES

FIRST SEMESTER EXAMINATION FOR BACHELOR OF COMMERCE

BAC 203: BUSINESS FINANCE 1

Date: 4/12/2015 **Time: 2:00 – 4:00 PM**

INSTRUCTIONS

Answer Question One And Any Other Two Questions.

QUESTION ONE

(a) Identify and describe **THREE** sources of long- term finance available to a business

(6 marks)

(b) If a profit–maximizing firm operating under perfectly competitive conditions faces a market price of Ksh 500 per unit of its output and has a total cost function given by TC = TC =10 + 5q2, determine its profit-maximizing output level? (6 marks)

(c) If Jane deposited Sh.100,000 in an institution that pays 8% compounded continuously, what would be the amount in the account after 4 years? (4 marks)

(d) An asset has the following possible returns with associated probabilities:

Possible returns	20%	18%	8%	0%	-6%
Probability	0.10	0.45	0.30	0.05	0.10

Required:

Calculate the expected rate of return and the standard deviation of the rate of return.

(14 marks)

QUESTION TWO

(a) Explain the following risk preference behaviors among managers.

(i) Risk-averse
(ii) Risk- indifference
(iii) Risk-loving (12 marks)

(b) Suppose you bought a share of Simba Cement on 31 March 2014 for Sh.225. You expect to receive a dividend of Sh.3.50 and sell the share for Sh.280 after one year. What is your expected rate of return? (8 marks)

QUESTION THREE

(a) What do you understand by the term "time value for money"? (4 marks)

(b) June decided to invest Sh.500,000 in a savings account paying 8% compounded semi-annually. If she leaves the money in the account for 2 years, how much will she have in the account at the end of the 2 years? (6 marks)

(c) Securities X and Y have the following characteristics:

Security X		Security Y	
Return	Probability	Return	Probability
30%	0.10	-20%	0.05
20%	0.20	10%	0.25
10%	0.40	20%	0.30
5%	0.20	30%	0.30
-10%	0.10	40%	0.10

Required:

Calculate the expected return for each security. Which security is riskier than the other?

(10 marks)

QUESTION FOUR

(a) Janet deposited Sh.800,000 in a savings account that pays 6% interest compounded annually and would like to know how much the account has after 3, 6, 7 and 10 years. Compute these amounts after the specified periods and provide Jane with the information she requires. (12 marks)

(b) ABC Company dividends are expected to grow at constant rate of 5% into the foreseeable future. The company has just paid Shs.3.5 per share as dividends. Shares are selling at Shs.50. with floatation cost being 10%. Calculate the cost of equity. (8 marks)

QUESTION FIVE

The information below relates to B.Com Enterprises Ltd.

	2010	**2009**
	Sh.'000'	**Sh.'000'**
Current assets	26,400	15,600
Current liabilities	(13,160)	(6,400)
Net working capital	13,240	9,200
Sales	120,000	96,000
Gross profit	54,000	40,000
Net profit	36,000	12,000

Inventory in 2009 and 2010 was Shs.5,000,000 and Shs.3,000,000 respectively. In the year 2009, B.Com Enterprises had Sh. 5.2 million of debt in form of 8% coupon bonds. It has Sh.6.4 million of common stock in form of 320,000 shares. Assume taxation is at the rate of 30%.

Required:

(a) Calculate:

(i) Current ratio (2 marks)

(ii) Debt /Equity Ratio (2 marks)

(iii) Net Profit Margin (3 marks)

(iv) Times interest earned ratio (3 marks)

(b) Calculate:

(i) B.Com's Earnings Per Share (5 marks)

(ii) B.com's Dividend yield (5 marks)