MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

………… YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 408 APPLIED INVESTMENT

DATE: **TIME:**

INSTRUCTIONS:

ANSWER QUESTIONS ONE AND ANY OTHER TWO QUESTIONS

QUESTION ONE

a) One assumption of capital the capital asset pricing model (CAPM)is that investors exhibit myopic behaviour. What does this mean? (6 marks)

b) With examples, explain clearly the terms liquid and illiquid as used by investors (6 marks)

c) Company x has a beta of 1.45. The expected risk-free rate is 2.5 % and the expected market return on the whole market is 10%. Appling the CAPM, determine x’s expected rate of return (6 marks)

d) Discuss the three ratios commonly used by Financial Analysts to rank the performance of portfolios (6 marks)

e) Discuss any three types mutual funds you are likely to invest in Kenya (6 marks)

QUESTION TWO

a) A portfolio has a total return of 10% and risk-free rate is 6%, and the portfolio’s beta is 0.9. You are required to calculate the Treynor Ratio and comment on your results (8 marks)

b) Discuss four major players in a mutual fund (12 marks)

QUESTION THREE

"Certain policy decisions of potential target countries of interest receive close scrutiny from investors. Consequently, a number of International Agreements have been written to specifically address those concerns "State and explain in detail some of these concerns (20 marks)

QUESTION FOUR

"Portfolio investment process is the first step in the portfolio management process. It is an integrated set of steps formulated and undertaken in a consistent manner to create and maintain an appropriate portfolio to meet investor's stated goals" On the basis of this statement discuss the four steps followed by investors in in portfolio investment planning (20marks)

QUESTION FIVE

a) Discuss the assumptions of the Capital Asset Pricing Model(CAPM) and show how these assumptions relate to the real world of investment decision process (12 marks)

b) A portfolio has a return of 10%, the Risk-Free Rate is 6% and the portfolio standard deviation is 18%. You are required to calculate and comment on your results on the performance of the portfolio according to Sharpe Ratio (8 marks)

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SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

SECOND YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 204 BUSINESS FINANCE II

DATE: 26/7/2019 **TIME: 2.00-4.00 PM**

INSTRUCTIONS:

ANSWER QUESTIONS ONE AND ANY OTHER TWO QUESTIONS

QUESTION ONE

a) Discuss any three characteristics of long-term investments (6 marks)

b) Lindeman's Ltd wants to expand its factory to take advantage of the increased demand for its products. It is proposed that this will cost Ksh.100,0000 and generate after-tax cash inflows of Ksh. 235,000, Ksh. For 8 years. You are required to determine Lindeman's payback period. (6 marks)

c) Discuss the merits and the demerits of Internal Rate of Return (6 marks)

d) Suppose the ABC company can issue bonds with a face value of Ksh.1000, a coupon of rate 5% (paid semi-annually), and 10years to maturity at Ksh.980 per a bond. If ABC Company's marginal tax rate is 30%. What is the cost of debt? (6 marks)

e) Suppose Plum Ltd will raise capital in the proportions; debt 40%, preferred stock 10% and common stock 12%. What is Plum's weighed average cost of capital (WACC) if its cost of debt3.6%, its cost of preferred stock is 8% and its cost. (6 marks)

QUESTION TWO

a) MO Ltd has a proposal for a project whose cost is Ksh. 50,000,000 and has an economic useful life of 5 years. It has a Nil residual value. The earnings before depreciation and tax expected from the project are as follows:

Year	EBDT "000"
	Ksh.
1	12,000
2	15,000
3	18,000
4	20,000
5	22,000

The corporate *tax* is 30% and depreciation is on straight line basis. You are required to determine the Accounting Rate of Return (ARR) (14 marks)

b) "The sum of the current assets is the working capital of the business firm." On the basis of this statement, state and explain the three components of working capital (6 marks)

QUESTION THREE

a) ABC Ltd has the following capital structure:

	Ksh.
Equity (Expected dividend 12%)	1000,000
10% Preference shares	500,000
8% Loan	1500,000

You are required to determine the WACC assuming 50% as the rate of income tax

(6 marks)

b) A Ltd issues Ksh. 100,000, 9% debenture at a premium of 10%. The costs of floatation are 2%. The tax rate applicable is 50%.You are required to determine the cost of debt capital

(6 marks)

QUESTION FOUR

a) X company Ltd has 100,000 shares outstanding the current market price of the shares Ksh. 15 each. The company expects the net profit of Ksh. 200,000 during the year and it belongs to rich class for which the appropriation rate has been estimated to be 20%. The company is consulting dividend of Ksh.20 per share for the current year. What will be the price of the share at the end of the year if: (i) Dividend is paid (ii)Dividend is not paid

(12 marks)

b) What are the assumptions of Modigliani and Miller Approach (8 marks)

QUESTION FIVE

Discuss the assumptions of James E. Walter Model regarding dividend concept in detail

(20 marks)

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SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

………… YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

DIPLOMA IN ACCOUNTANCY

DACC 211 FINANCIAL MANAGEMENT II

DATE: **TIME:**

INSTRUCTIONS:

ANSWER QUESTIONS ONE AND ANY OTHER TWO QUESTIONS

QUESTION ONE

a) Discuss the key characteristics of long-term investment (6 marks)

b) State and explain the main components of cash flow (6 marks)

c) Explain the following terms as used in capital budget decisions:

(i) Independent vs mutually exclusive projects

(ii) Unlimited funds vs capital rationing (6 marks)

d) What is the payback period for an investment that requires a Ksh. 10,000 initial investments and returns of Ksh.3000 per year thereafter. Comment on your answer (6 marks)

e) Discuss the advantages of payback period (6 marks)

QUESTION TWO

A project will cost Ksh. 80,000,000. Its stream of earnings before depreciation and interest and taxes (EBDIT) during the first year through five years is expected to be Ksh. 20,000,000, Ksh24,000,000, Ksh. 28,000,000 and Ksh. 40,000,000. Assuming a 30% corporation tax rate and depreciation on straight line basis, Calculate the projects accounting Rate of Return

QUESTION THREE

a) The owner of Trans line is considering to buy a 62 seater bus which will sale for Ksh.6000,000 and is expected to bring about Ksh. 1000 per day after expenses. The cost of funds is 15%. Should the bus be purchased? The bus is expected to last three years before a newer model will be needed to attract passengers (16 marks)

b) Discuss the disadvantages of Net Present Value (4 marks)

QUESTION FOUR

The initial cash outlay of a project is Ksh. 100,000 and it can generate cash flows of Ksh. 40,000, Ksh. 30,000, Ksh. 50,000, and Ksh. 20,000 in year one through year four. Assuming 10% rate of discount, calculate the Net Present Value and the Profitability Index of the Project

QUESTION FIVE

a) State and explain the differences between capital structure and financial structure(8 marks)

b) Discuss the factors of that are considered when deciding the capital structure of the business firm (12 marks)