



MACHAKOS UNIVERSITY

University Examinations for 2022/2023 Academic Year

**SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM
MANAGEMENT**

DEPARTMENT OF BUSINESS ADMINISTRATION AND FINANCE

SECOND YEAR..... SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS

BACHELOR OF COMMERCE

BAC 203 BUSINESS FINANCE

DATE:

TIME:

INSTRUCTIONS

Answer question one and any other two questions

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Two neighboring countries have chosen to organize their electricity supply industries in different ways. In country A, electricity supplies are provided by a nationalized industry. On the other hand in country B electricity supplies are provided by a number of private sector companies.

Required

- i) Explain how the objectives of the nationalized industry in country A might differ from those of the private sector companies in country B. (5 marks)
 - ii) Briefly discuss whether investment planning and appraisal techniques are likely to differ in the nationalized industry and private sector companies. (5 marks)
- b) Distinguish between debt and equity capital. (12 marks)

- c) The following relates to two securities (security A and B) being offered for subscription with their respective characteristics.

State of the Economy	Possibility of occurrence	Security A	Security B
X	0.35	-10%	25%
Y	0.25	15%	-10%
Z	0.40	20%	15%

- i. Calculate the expected return on each security. (2 marks)
- ii. Calculate the standard deviation of the returns on security A (2 marks)
- iii. Calculate the standard deviation of the returns on security B (2 marks)
- iv. Which security do you recommend for investment by an investor and why? (2 marks)

QUESTION TWO (20 MARKS)

The executive director of Mapema Ltd has circulated the following information as part of board paper:

Mapema Ltd.

Financial Performance for the year ended 31 March:

	2022	2021
i) Return on investment	12%	10%
ii) Gross profit on sales	25%	20%
iii) Number of days credit given	30 days	45 days

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|----------------------------------|----|-----|
| iv) Administrative cost of sales | 7% | 10% |
|----------------------------------|----|-----|

Required

- a) Brief report on each of the above 4 ratios indicating the reservation, if any, you may have or judging them as improvement in performance. (10 marks)
- b) Tumaini Ltd has sales of Sh.20,000,000 in 2021. Beginning and closing stock was Sh.800,000 and Sh.2,200,000 respectively. G.P. margin is usually 25% of sales.

Required

- i) Stock turnover ratio (3 marks)
- ii) Number of days stock held (3 marks)
- iii) Brief explanation on how the ratio computed in (i) above can be improved and financial Consequences of such action. (4 marks)

QUESTION THREE (20 MARKS)

- (a) Kamama purchased shares in January 2021 for Ksh. 60,000, the market value of the shares by the end of the same year was Ksh. 63,750. During the year 2021, the shares generated after tax cash receipt of Ksh. 3,000. Calculate the total rate of return on this investment. (8 marks)
- b) Plum Computer Company has the following structure as at 31 December 2021.

Source of funds	Amount (Ksh.)
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12% debentures	7,000,000
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8%Preference shares	4,000,000
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Ordinary shares	9,000,000
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The share of the company sales for ksh. 30, and it is expected that the company will pay end of year a dividend of ksh.3 per share which will grow at 8% forever. Assuming a tax rate of 30%;

Calculate the Weighted Average Cost of Capital(WACC) for Plum Computer Company, based on the above capital structure. (12 marks)

QUESTION FOUR (20 MARKS)

- a) Explain why the concept of time value of money is an important tool in finance. (10 marks)
- b) Explain problems sole traders' encounter in a bid to raise finance on Kenya's financial markets. (10 marks)

QUESTION FIVE (20 MARKS)

- a) Explain the importance of ascertaining the cost of finance of a company's capital structure. (12 marks)
- b) Explain the benefits of having an effective financial forecast in a business entity (8 marks)