



The Co-operative University of Kenya

END OF SEMESTER EXAMINATIONS AUGUST-2018

EXAMINATION FOR THE DIPLOMA IN ACCOUNTING AND FINANCE
(YR I SEM I)

UNIT CODE: DMAF 1101

UNIT TITLE: FUNDAMENTALS OF FINANCE

DATE: 27TH AUGUST, 2018

TIME: 2:00 PM – 4:00 PM

INSTRUCTIONS:

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

QUESTION ONE

- a) Finance is all about valuation; explain the concept of valuation and highlight the various valuation techniques in Finance (4 Marks)
- b) Define the term financial markets (2 Marks)
- c) Briefly explain the various classifications of financial markets (4 Marks)
- d) Highlight the financial and non-financial goals of a firm of your own choice (4 Marks)
- e) Discuss six sub-disciplines of finance (6 Marks)
- f) XYZ Ltd paid a dividend of sh.2.50 per share. The company expects to pay the same amount of dividends in each of the coming years into the foreseeable future. If the ordinary shareholders in this company require a minimum required of return of 8%. How much is the stock of ordinary share of XYZ worth today? (5 Marks)
- g) Bahati company has the following capital structure

<u>Source</u>	<u>Amount</u>
Debentures	8,000,000
Preference capital	2,000,000
Retained earnings	4,000,000
Ordinary share capital	6,000,000
Total	20,000,000

The component costs of capital are $K_d=6\%$, $K_p=10.5\%$, $K_r=14\%$, $K_s=17.2\%$. Compute the WACC (5 Marks)

QUESTION TWO

- a) A sh today is worth a sh tomorrow. Discuss (6 Marks)
- b) What's the role of the government on the following financial systems?
- i. CMA
 - ii. CBK (4 Marks)

c) Assume that Makambo Corporation is considering an investment of 50M in a capital project that will return after tax cash flows of 16M per year for the next four years plus another 20M in year five. The required rate of return is 10%. Calculate the NPV of the Corporation (10 Marks)

QUESTION THREE

- a) State three rules of a time travel (3 Marks)
- b) A company expects to pay a dividend of sh3 per share at the end of year 1. Thereafter investors expect the growth rate in dividends to be at 5% in the subsequent years forever. If the investors demand a minimum required rate of return of 8%. How much are these cash flows worth today (5 Marks)
- c) Assume an investment manager has created a portfolio with Stock A and Stock B. Stock A has an expected return of 20% and a weight of 30% in the portfolio. Stock B has an expected return of 15% and a weight of 70%. What is the expected return of the portfolio? (3 Marks)
- d) An analyst writes a report on a company and based on the research, he assigns the following probabilities to next year's sales:

Scenario	Probability	Sales (\$ Millions)
1	0.10	\$16
2	0.30	\$15
3	0.30	\$14
3	0.30	\$13

Calculate Variance and the standard deviation using the company's report (9 Marks)

QUESTION FOUR

- a) Given the following data for Newco's stock, calculate the stock's variance and standard deviation. The expected return based on the data is 14%. (10 Marks)

Scenario	Probability	Return	Expected Return
Worst Case	10%	10%	0.01
Base Case	80%	14%	0.112
Best Case	10%	18%	0.018

- b) XYZ Corporation is considering an investment of ksh50M in a capital project that will retain after tax cash flows of ksh16M per year for the next four years plus another ksh20M IN year five. The required rate of return is 10%. Calculate (10 Marks)
- NPV of XYZ Corporation
 - Payback period of XYZ Corporation

QUESTION FIVE

- a) Discuss the various principles and trends in Islamic finance (10 Marks)
- b) Distinguish Islamic from conventional banking (6 Marks)
- c) State four sources of finance in Islamic financing (4 Marks)