**LAIKIPIA UNIVERSITY COLLEGE**

**BCOM 335: ASSIGNMENT (TAKE AWAY)**

**ASSIGNMENT 1 (DUE ON JUNE 8, 2011)**

VALUATION

1. ABC LTD has an issue of outstanding preferred stock that pays a dividend of Ksh. 6.50 per share in perpetuity. If the required rate of return is 15%, what is the intrinsic value of the share? (4 mks) (IGNORE TAX).

CAPITAL BUDGETING

1. The accountant of Kisumu LTD has come up with the following cash flows projections for a project that the company is planning to undertake.

|  |  |
| --- | --- |
| Cash flows (Ksh. Millions) | Probability (Pr) |
| 1 | 0.15 |
| 1.5 | 0.10 |
| 1.8 | 0.15 |
| 2 | 0.20 |
| 2.1 | 0.30 |
| 2.6 | 0.09 |
| 4 | 0.01 |

Run a simulation using the following random numbers and develop a probability distribution of cash flows. What is the expected cash flow from your simulation analysis above? (8 mks)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 88 | 30 | 50 | 60 | 97 | 23 | 70 | 36 |
| 60 | 73 | 54 | 35 | 58 | 20 | 70 | 13 |
| 66 | 96 | 99 | 44 | 59 | 88 | 98 | 58 |
| 58 | 97 | 65 | 53 | 83 | 52 | 16 | 12 |
| 34 | 45 | 83 | 66 | 52 | 81 | 28 | 90 |
| 97 | 46 | 57 | 17 | 11 | 81 | 41 | 68 |
| 70 | 91 | 88 | 90 | 84 | 11 | 39 | 13 |
| 95 | 28 | 80 | 55 | 58 | 25 | 71 | 89 |
| 46 | 49 | 20 | 74 | 57 | 84 | 64 | 72 |
| 91 | 44 | 75 | 53 | 75 | 43 | 39 | 82 |
| 14 | 89 | 22 | 35 | 25 | 72 | 12 | 72 |
| 50 | 82 | 19 | 37 | 85 | 86 | 73 | 38 |
| 94 | 95 | 90 | 25 | 24 | 39 | 95 | 20 |

RANDOM NUMBERS:

**ASSIGNMENT 2 (DUE ON JULY 15, 2011)**

RISK AND RETURN

Consider the following information about the market portfolio and stock 1.

|  |  |  |  |
| --- | --- | --- | --- |
| State of economy | Probability | Rate of return if the state occurs | |
|  |  | Market | Stock 1 |
| Recession | .25 | .09 | -0.30 |
| Normal | .50 | .42 | .12 |
| High growth | .25 | .26 | .44 |
|  |  |  |  |

The market risk premium (Rm-Rf) is 8%, and the risk free rate is 4%.

Compute the Beta of the stock I, and interpret the result. What is the expected return on stock 1 using CAPM? (10 mks).

FINANCIAL PLANNING

1. Explain how long-term financial planning is related to operational budgeting. (4 mks)

b. What is financial modeling and how does it assist the financial manager in planning? (4.5 mks)

c. Why is it important for a firm to analyze its comparative and competitive advantages in assessing its strategy? (7 mks)

d. Suppose a firm had the following assets at the end of a year:

Current assets 70,000

Plant assets 20,000

Total assets 90,000

And suppose the firm had sales of Ksh.300, 000. Using the percentage of sales methods and using this year as the base year, what are the predicted current assets and plant assets and total assets of the firm in the following year if sales are predicted to be Ksh. 425,000? (8 mks)

DERIVATIVES

Explain the meaning of the following terms:

1. Primitive securities.
2. Derivatives securities
3. Futures contracts.
4. Forward contracts.
5. Options. (3 mks each)