

**KARATINA UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2021/2022 ACADEMIC YEAR**

**SECOND** YEAR **FIRST** SEMESTER EXAMINATION

**BACHELOR OF HUMAN RESOURCE MANAGEMENT**

**COURSE CODE: BHR 317**

**COURSE TITLE: BUSINESS FINANCE**

**DATE: 17 FEBRUARY, 2022 TIME: 8AM-12PM**

**BHR 314: Business Finance**

**ATTEMPT QUESTION ONE AND THREE OTHER QUESTIONS**

**QUESTION ONE**

a. Suppose you want to buy a share of Swiss Farms, S.A., a dairy products company.

The recent dividend payouts by the firm are as follows.

|  |  |
| --- | --- |
| YEAR | DIVIDEND PER SHARE (KSH) |
| 2005 | 1.20 |
| 2006 | 1.25 |
| 2007 | 1.45 |
| 2008 | 1.60 |
| 2009 | 1.85 |
| 2010 (CURRENT YEAR) | 2.00 |

Your opportunity cost is 12%. What is this stock worth to you? (9 MKS)

b.A 9%, 10-year bond with a face value of Ksh.1000 sells at Ksh.920. What is its yield to maturity? (For simplicity, assume interest is payable only once per year at Ksh. 90 per bond per year). (8 mks)

c. Discuss the internal rate of return as a method of evaluating investments, highlighting its advantages and disadvantages. (8 mks)

**QUESTION TWO**

a) You plan to accumulate Ksh. 10,000 in 4 years time. You strategize to deposit four equal installments into your bank account. The bank account pays an interest of 12% per annum. How large must each installment be in order to reach your goal? (6 mrks).

b) Describe the agency theory and explain three mechanisms that shareholders can resolve agency conflicts. (9 marks)

**QUESTION THREE**

A company is weighing whether to invest in a tea leaves picking machine to replace the current manual labor it employs. The machine would cost Ksh. 4,500,000.00. The machine is estimated to have a useful life of 8 years with no salvage value. During its life, it is expected that the company will save Ksh. 800,000.00 per year in labor expenses. The cost of capital for the company is 12%. REQUIRED

* 1. The cash flow per year expected from the machine. (6 mks)
  2. The net Present value of the benefits to be generated by the machine. (6 mks)
  3. The payback period of the machine (in years) (4 mks)
  4. Discuss the advantages and disadvantages of
     1. The net present value method of evaluating investments. (4 mks)
     2. The payback period method of evaluating investments. (3.5 mks)

**QUESTION FOUR**

a. Write short notes on the following bond terminology.

* 1. Coupon rate (2 mks)
  2. Notes (2 mks)
  3. Par value (2 mks)
  4. Maturity (2 mks)
  5. Indenture (2 mks)
  6. Debt ratings (2 mks)

1. Briefly discuss 5 objectives of financial management, citing relevant examples. (11.5 mks)

**QUESTION FIVE**

* 1. ‘Profit maximization objective has been criticized on many grounds’. Discuss the criticism of the profit maximization as an objective of financial management (8.5 mks)
  2. Discuss wealth maximization as an alternative objective of a finance manager, highlighting its strengths and weaknesses. (15 mks)