

**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE
AND TECHNOLOGY**

UNIVERSITY EXAMINATIONS 2014/2015

YEAR TWO SEMESTER ONE EXAMINATION FOR THE DEGREE OF BACHELOR OF
BUSINESS ADMINISTRATION WITH IT

(KISII LEARNING CENTRE)

(FULL- TIME AND PART- TIME)

ABA 202: INTRODUCTION TO FINANCE

TIME: 2 HOURS

DATE: AUG. 2014

DAY:

INSTRUCTIONS

- 1. Answer QUESTION ONE and any other TWO questions**
- 2. Show clearly and neatly all the workings**
- 3. Do not write anything on the question paper**

QUESTION ONE (30MARKS)- COMPULSORY

- (a) Distinguish between the goals of profit maximization and shareholder wealth maximization. (4marks)
- b) Discuss any four sources of financing a business, clearly indicating advantages and disadvantages for each (8mks)
- c) Financial ratios are used as a bench mark for evaluating the financial position and performance of a firm;
 (i) State and explain any four types of financial ratios. (4 marks)
 (ii) Identify and explain any three users of such financial ratios (4mark)
- d) Highlight the limitations of Break-Even Analysis as a tool for financial planning. (4marks)
- e) Explain any two recurring finance functions (2mks)
- (f) A company issues Ksh10,000 par value debentures paying annual interest of 12%. The debentures can be sold to the public at Ksh 20,100 with a cost of Ksh 300. The company is in the 40% tax rate bracket. Calculate the effective cost of debt. (4mks)

QUESTION TWO (20MARKS)-

- (a) From the following balance sheet of Mr Kamau Industries Ltd, as at 31 March 2008.

Liabilities	Rs.	Assets	Rs.
Equity Share Capital	10,000	Fixed assets	26,000
7% Preference Share capital	2,000	(less	
Reserves and surplus	8,000	Depreciation	
6% Mortgage Debentures	14,000	Rs. 10,000)	
Current Liabilities:		Current	
Creditors	1,200	Assets:	
Bills Payable	2,000	Cash	1,000
Outstanding expenses	200	Investments	3,000
Tax provision	2,600	Sundry debtors	4,000
	—	Stock	<u>6,000</u>
	40,000		40,000

Additional information:

Net sales Rs.60, 000

Cost of goods sold	Rs. 51,600
Net income before tax	Rs.4, 000
Net income after tax	Rs.2, 000

Required: (i) Current ratio (16 marks)

(ii) Liquid ratio

(iii) Proprietary ratio

(iv) Debt-Equity ratio

(b) Highlight any four limitations of financial ratios (4mks)

QUESTION THREE (20MARKS)

(a) Explain the following :

(i) Break-even Point (2mks)

(ii) Margin of safety (2mks)

(b) The data below relates to Umoja Ltd Company.

Sales	(40000 units @Ksh 250)	Ksh	1,000,000
Variable costs.....			Ksh	720,000
Fixed Costs			Ksh	160,800

Required: Compute;

(i)Profit Volume Ratio (3mks)

(ii) Breakeven Point(,in sales and units) (5mks)

(iii)Margin of safety (3mks)

(iv)What additional units should be sold to obtain the same amount of profit if the selling price is reduced to Ksh 20. (5mks)

QUESTION FOUR (20MARKS)

a) Budgeting is essentially a formalized planning of management's intended action and desired results. Discuss any five significant advantages/benefits of budgeting (10mks)

b).(i) what is financial planning? (2mk)

(ii)Examine any four characteristics of a sound financial plan (8 mks)

QUESTION FIVE (20MARKS)

(a) (i) Briefly explain the importance of capital budgeting in a business organization (3 mks)

(ii) Examine Net Present value as a method of capital budgeting technique and state any three advantages associated with it. (5mks)

(iii) ABC limited wishes to expand its output by purchasing a new machine worth 170,000 and installation costs are estimated at 40,000/=. In the 4th year, this machine will call for an overhaul to cost 80,000/=. Its expected cash inflows are:

Year	K Shs.
Year 1	60,000
Year 2	72,650
Year 3	35,720
Year 4	48,510
Year 5	91,630
Year 6	83,715

This company can raise finance to purchase machine at 12% interest rate.

Compute NPV and advise management accordingly. (12 mks)

END