

**W1-2-60-1-6**

## JOMO KENYATTA UNIVERSITY

**OF**

**AGRICULTURE AND TECHNOLOGY**

# University Examinations 2014/2015

**SECOND YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE**

**HBC 2202 : INTRODUCTION TO FINANCIAL MANAGEMENT**

**DATE: AUGUST 2015 TIME: 2 HOURS**

**INSTRUCTIONS: ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER**

**TWO QUESTIONS.**

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**QUESTION ONE (30 MARKS)**

(a) Explain the role of the finance manager in an organization. [10 marks]

(b) Discuss the reasons behind the fast development of plastic money in Kenya.

[10 marks]

(c) Explain the objectives of working capital management. [10 marks]

(d) You would like to buy a car. You have reviewed your budget and determined that you can afford to pay Sh. 5000 per month as a car payment.

1. How much can you borrow if interest rates are 9% and you pay the loan in 4 years’ time? [2 marks]
2. How much could you borrow if you agree to pay for 6 years instead?

[2 marks]

**QUESTION TWO (20 MARKS)**

(a) Discuss the functions of financial markets in Kenya’s economy. [10 marks]

(b) Explain the various entities that comprise the borrowers in Kenya’s financial markets. [10 marks]

**QUESTION THREE (20 MARKS)**

(a) Your firm needs to buy additional physical therapy equipment that costs Sh. 20,000. The equipment manufacturer will give you the equipment now, if you will pay Sh. 6000 per year for the next four years. If your firm can borrow money at 9% interest rate, should you pay the manufacturer the Sh. 20,000 now or accept the four year annuity offer for Sh. 6000? [5 marks]

(b) Discuss the various types of financial markets. [5 marks]

(c) Explain the benefits of secondary markets to investors. [10 marks]

**QUESTION FOUR (20 MARKS)**

(a) Explain the conditions under which hire purchase is an ideal source of finance.

[10 marks]

(b) Discuss the conditions under which loans are ideal. [10 marks]

**QUESTION FIVE (20 MARKS)**

(a) Explain the factors that influence the amount of working capital. [10 marks]

(b) The following information represents the financial position and financial results of Ametex Ltd. for the year ended 31 December 2012:

**Ametex Ltd.**

**Trading and Loss Account for the year ended 31 December 2012**

|  |  |  |
| --- | --- | --- |
|  | **Sh.000** | **Sh.000** |
| Sales cash |  | 300,00 |
| Credit |  | 600,00 |
|  |  | 900,00 |
| Less: cost of sales: |  |  |
| Opening stock | 210,000 |  |
| Purchases | 660,000 |  |
|  | 870,000 |  |
|  |  |  |
| Less closing stock: | (150,000) | 720,000 |
| Gross profit |  | 180,000 |
| Less expenses: |  |  |
| Depreciation | 13,100 |  |
| Directors emoluments | 15,000 |  |
| General expenses | 20,900 |  |
| Interest on loan | 4,000 |  |
|  |  | (53,000) |
| Net profit before tax |  | 127,000 |
| Corporation tax at 30% |  | (38,000) |
| Net profit after tax |  | 88,900 |
| Preference dividend | 4,800 |  |
| Ordinary dividend | 10,000 | 14,800 |
| Retained profit for the year |  | 74,100 |

**Ametex Ltd.**

**Balance sheet as at 31 December 2012**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Sh.000** | **Sh.000** | **Sh.000** |
| Fixed assets |  |  | 213,900 |
| Current assets: |  |  |  |
| Stock | 150,000 |  |  |
| Debtor | 35,900 |  |  |
| Cash | 20,000 |  |  |
|  |  | 205,900 |  |
| Current liabilities: |  |  |  |
| Trade creditors | 60,000 |  |  |
| Corporation tax payable | 63,500 |  |  |
| Proposed dividend | 14,800 |  |  |
|  |  | 138,300 |  |
|  |  |  | 67,600 |
|  |  |  | 281,500 |
| Financed by: |  |  |  |
| Ordinary share capital (Sh. 10 per value) | 100,000 |  |  |
| 8% preference share capital | 60,000 |  |  |
| Revenue reserves | 81,500 |  |  |
| 10% bank loan | 40,000 |  |  |
|  |  |  | 281,500 |

**Additional information:**

(i) The company’s ordinary shares are selling at Sh. 20 in the stock market.

(ii) The company has a constant dividend payout of 10%.

**Required:**

Determine the working capital cycle for the company. [10 marks]