

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

**JOMO KENYATTA UNIVERSITY**

**OF**

**AGRICULTURE AND TECHNOLOGY**

UNIVERSITY EXAMINATIONS 2014/2015

**YEAR 2 SEMESTER I EXAMINATION FOR THE DIPLOMA IN BUSINESS ADMINISTRATION**

**HBC 0211: BUSINESS FINANCE**

**DATE: APRIL 2015 TIME: 1.5 HOURS**

**INSTRUCTIONS**: Answer Question **One (Compulsory)** and Any Other Two Questions.

**QUESTION ONE (30 MARKS)**

1. Outline any four objectives of a business entity (4marks)
2. Describe three agency relationship in each of the following
3. Shareholders and management
4. Shareholders and creditors
5. Shareholders and government (6marks)
6. Outline any four functions of a financial manager (4marks)
7. Highlight any five characteristics of sole proprietorship business organization (5marks)
8. Explain any five clauses contained in a partnership deed. (5marks)
9. Describe any three differences between a partnership and a company (6marks)

**QUESTION TWO (15 MARKS)**

1. Outline any three advantages of Net Present Value method of project appraisal (3marks)
2. A company ABC ltd wishes to invest in any of the two projects each requiring an initial cash outlay of sh10,000 and with useful life of 5 years. The company’s required rate of return is 10% and its corporate tax rate is 50%. The projects depreciation will be on a straight line basis. The cash flows expected to be generated by the projects before depreciation and taxes are shown below;

Year Project A Project B

 Shs Shs

1 4,000 6,000

2 4,000 3,000

3 4,000 2,000

4 4,000 5,000

5 4,000 5,000

Required;

Calculate for and state which project should be accepted in each case

1. The payback period
2. The average rate of return
3. The net present value
4. Profitability index (12marks)

**QUESTION THREE (15 MARKS)**

1. Outline any five importance of financial analysis to various parties of the company (5marks)
2. Texas company had its financial statements below

Balance sheet as at 31st March 1995

ASSETS shs LIABILITIES AND NET WORTH shs

Cash 28,500 Trade Creditors 116,250

Debtors 270,000 Creditors 54,000

Stock 649,500 Other current liabilities 100,500

Total current Assets 948,000 Longterm debt (10%) 300,000

Net fixed assets 285,750 Net worth 663,000

 1,233,750 1,233,750

Income statement for the year ended 31st March 1995

 Shs

Sales 1,972,500

Less: cost of sales 1,368,000

 Gross profit 604,500

Less: Selling and administrative expenses 498,750

 105,750

Less: Interest expenses 34,500

 71,250

Less: Estimated taxation (40%) 28,500

Earnings after interest and tax 42,750

Required;

Calculate

1. Inventory turnover ratio
2. Times interest earned ratio
3. Total assets turn over
4. Net profit margin (10marks)

**QUESTION FOUR (15MARKS)**

1. Outline any four factors that influence the cost of finance (4marks)
2. Describe any four importance of cost of finance (4marks)
3. The capital structure of Dolt company as at 31st December 2002 was as below;

 Shs.M

Ordinary share capital sh10 par value 400

Retained earnings 200

10% preference share capital sh20 par value 100

12% debenture sh100 par value 200

 900

Additional information;

1. Corporate tax rate is 30%
2. Preference shares were issued 10 years ago and are still selling at par value Mps=par value
3. The debenture has a 10 year maturity period. Its currently selling at sh90 in the market
4. Currently the firm has been paying dividend per share of sh5. The DPS is expected to grow at 5% p.a in future. The current MPS is sh40

Required

Determine the weighted average cost of capital of Dolt company (7marks)