

W1-2-60-1-6

**JOMO KENYATTA UNIVERSITY**

**OF**

**AGRICULTURE AND TECHNOLOGY**

**UNIVERSITY EXAMINATIONS 2017/2018**

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

**HCB 0201: BUSINESS FINANCE**

**DATE: AUGUST 2018 TIME: 1 ½ HOURS**

**INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS**

**QUESTION ONE**

1. Onyango has been in business for the last one year. Describe FIVE basic plans he will require to develop for managing the affair of his business. [10 marks]
2. Discuss the goals of a firm that ensures that the economic welfare of the owners can be exploited. [8 marks]
3. Discuss the limitation of payback period as a traditional method of capital budgeting. [6 marks]
4. For what reasons, other than to raise outside finance, might a private company take the necessary steps to secure a stock exchange quotation. [6 marks]

**QUESTION TWO**

1. Individual generally prefer possession of a given amount of money/cash now rather than the same amount at a future date. What are the reasons that this time of preference of money may arise. [4 marks]
2. You have borrowed Ksh.10,000 from a bank with the understanding that you will pay it off with a lump sum of Ksh.12,000 after 2 years. Find the annual rate of interest on this loan. [10 marks]
3. Suppose you want to have Ksh.1,000 two years from now and the effective annual interest rate is 10%. Calculate the amount you must invest today. [6 marks]

**QUESTION THREE**

1. A raha is quotient of two mathematical expressions. State the limitation of using ratios. [8 marks]
2. The following balances sheet are extracted from the books of Wananchi Co. Ltd.

Ksh. Ksh.

Dec 31 2009 Dec 31 2008

Cash 50,000 52,000

Marketable security 150,000 175,000

Trade debtors 200,000 250,000

Stock 300,000 355,000

Total current assets 700,000 832,000

Fixed Assets 1,800,000 1,610,000

Provision for depreciation (500,000) (400,000)

Net fixed assets 1,300,000 1,210,000

Total Assets 2,000,000 2,042,000

The following Trading, profit and loss account is also provided for the year ended 31 Dec. 2009

Ksh. Ksh.

Sales (Net 3,000,000

Cost of sales 2,555,000

Gross profit 445,000

Less operating expenses:

Selling, marketing and distribution 22,000

Administration 20,000

Miscellaneous 20,000

Payment on office building 28,000 (90,000)

355,000

Less depreciation (100,000)

255,000

Add other income 15,000

270,000

Less interest expenses (70,000)

200,000

Income tax (45%) (90,000)

110,000

Earnings per share (E.P.S) 3.67

**Required:**

(a) Calculate;

(i) Current ratio [2 marks]

(ii) Cash ratio [2 marks]

(iii) Gross Profit Margin [2 marks]

(iv) Return on equity [2 marks]

(v) Debtors turn over [2 marks]

(vi) Debt ratio [2 marks]

**QUESTION FOUR**

1. State FIVE reasons why we need to measure cost of capital. [5 marks]
2. The total capital of a company based on book values appearing in its balance sheet is made up as follows;

Weight

Ordinary shares 40% cost 16%

Retained earnings 25% cost 16%

Long term debt 20% with coupon rate of 15%

Short term debt 15% bearing interest at 9%

Assume corporate tax of 50% what is the overall cost of capital?

**Required:**

Calculate the weighted cost of capital in monetary terms. [15 marks]