JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS & ECONOMICS

UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION WITH IT

2^{ND} YEAR 1^{st} SEMESTER 2016/2017 ACADEMIC YEAR

KISII CAMPUS-PART TIME

COURSE CODE: ABA 202

COURSE TITLE: INTRODUCTION TO BUSSINESS FINANCE

EXAM VENUE: **STREAM: (BBA)**

DATE: **EXAM SESSION:**

TIME: 2 HOURS

Instructions:

1. **Answer Question ONE (COMPULSORY) and ANY other 2 questions**
2. **Candidates are advised not to write on the question paper.**
3. **Candidates must hand in their answer booklets to the invigilator while in the examination room.**

QUESTION ONE

ABA 202: INTRODUCTION TO FINANCE.
DURATION 2HOURS

Question one is compulsory. Attempt any other two questions of your choice.

QUESTION ONE (30 Marks)

1.a). Within a business finance context, discuss the problems that might exist in the relationships (sometimes referred to as agency relationships) between:

i) Shareholders and managers, and
ii) Shareholders and creditors. (10marks)

b). Briefly explain the objectives of any business entity. (10marks)

c). The following information relates to the forecast of securities A and B and their probabilities during the financial year ending 30 June 2014.

	SECURITY A	SECURITY B
Probability	Rate of return	Rate of return
0.2	10%	8%
0.1	12%	10%
0.35	8%	7%
0.05	15%	12%
0.15	14%	11%
0.15	9%	8%

Required:

Determine the expected return, standard deviation and coefficient of variation on securities A and B. (10 marks)

QUESTION TWO (20 Marks)

2. (a). List and explain five factors that should be taken into account by a businessman in making the choice between financing by short-term and long-term sources. (10 marks)

(b). Distinguish between internal and external sources of finance for a limited liability company (4 marks)

(c).Differentiate between debt finance and equity finance. (6 marks)

QUESTION THREE (20 Marks)

3. a). Define the term capital budgeting. (2 marks).

b). Discuss the following terms as used in capital budgeting:-

Cash flow risk (3marks)

Business risk (3marks)

Sales risk (3marks)

Financial risk (3 marks)

Interest rate risk (3marks)

c). Consider a five year project whose initial cash outlay is Kes. 1,000,000.00 and it is expected to generate annual cash flows are Kes. 200,000.00 per annum.

Required:

Calculate the payback period. (3marks)

QUESTION FOUR (20 Marks)

4. XYZ Ltd wants to raise new capital to finance a new project. The firm will issue 200,000 ordinary shares (Sh.10 par value) at Sh.16 with Sh.1 floatation costs per share, 75,000 12%preference shares (Sh.20 par value) at Sh.18 with sh.150,000 total floatation costs, 50,000 18% debentures (sh.100 par) at Sh.80 and raised a Sh.5,000,000 18% loan paying

total floatation costs of Sh.200,000. Assume 30% corporate tax rate. The company paid 28% ordinary dividends which is expected to grow at 4% p.a.

Required

a) Determine the total capital to raise net of floatation costs (10 Marks)
b) Compute the marginal cost of capital (10 Marks)

QUESTION FIVE (20 Marks)

a) Enumerate the features of a sound appraisal technique? (6 marks)
b) Discuss the practical problems are faced by finance managers in capital budgeting decisions? (6 marks)
c) Describe the features of long term investment decisions. (8 marks