



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS & ECONOMICS
UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION WITH IT.
2ND YEAR 1ST SEMESTER 2016/2017 ACADEMIC YEAR
MAIN CAMPUS

COURSE CODE: ABA 202

COURSE TITLE: INTRODUCTION TO FINANCE (EVENING MAIN)

EXAM VENUE: STREAM: (BBA)

DATE: December 2016 EXAM SESSION:

TIME: 2 HOURS

Instructions:

- 1. Answer questions ONE and ANY other TWO 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

- a) State any five goals that are pursued by public firms (5mks)
- b) State five factors which govern choice of source of finance by firm (5mks)
- c) Assume you are newly employed in a firm as a finance manager. Your first intention is to reduce the operating cycle. Describe five ways of achieving this (5mks)
- d) Describe the five steps in budgeting (5mks)
- e) If the selling price of a commodity is shs 20 per unit and its variable cost is shs. 12 per unit. Fixed cost is shs 80,000. Determine:
- i) B.E.P in units (2mks)
- ii) B.E.P in shillings (2mks)
- iii) How many units must be sold to earn a profit of sh 18,000 (2mks)
- f) The executive director of Pesa Ltd has circulated the following introduction as part of board paper

Pesa Ltd

Financial performance for the year ended 31 march

	1999	1998
i) Return on investment	12%	10%
ii) Gross profit on sale	25%	20%
iii) Number of days credit given	30days	
45days		
IV) Administrative cost of sale	7%	
10%		

Required: Make a brief report on each of the above 4 rates indicating the reservation if any, you may have or judging them as improvement in performance (4mks)

QUESTION TWO

- a) Explain any five functions of Nairobi stock exchange (10mks)

b) From the following information determine the total operation cycle (10mks)

	Average
Finished goods	26,000
Debtors	44,000
Raw material	34,000
Sales	164,000
Cost of sales	184,000
Purchase of raw material	144000
Creditors	24,000
Assume	1 year = 360days

QUESTION THREE

a) Explain five factors that influence the cost of finance (10mks)

b) The information below gives two mutually exclusive projects A and B each requiring an initial outlay of sh 500,000 with the following net cash flows:

Year	Project A	Project B
1	200,000	350,000
2	250,000	200,000
3	100,000	100,000
4	150,000	250,000

The firm's cost of capital is 12%. For each project calculate:

- i) Pay back period (4mks)
- ii) Net present value (4mks)
- iii) Comment on the results (2mks)

QUESTION FOUR

The following financial statements relates to A B C Company

Assets	shs.	Liabilities & net worth	
Cash	28,500	Trade credit	sh 116,250
Debtors	270,000	Notes payable (9%)	54,000
Stock	<u>649,500</u>	other current liabilities	100,500
Total current assets	948,800	long term debt (10%)	300,000
Net fixed assets	<u>285,750</u>	Net worth	<u>663,000</u>
	<u><u>1,233,750</u></u>		<u><u>1233,750</u></u>

Income statement for the year ended 31 march 2016.

Sales	sh.1, 972,500
Less cost of sales	<u>sh.1, 368, 00</u>
Gross profit	sh.604, 500
Selling and distribution expences	<u>sh.498, 750</u>
Earning before interest and tax	sh.105,750
Interest expense	<u>34,500</u>
	sh.71, 250
Estimated taxation (40%)	sh.28,500
Earnings after interest and tax	<u><u>sh.42, 750</u></u>

Required:

- a) Calculate
- i. Inventory turnover ratio (3mks)
 - ii. Times interest earned ratio (3mks)
 - iii. Total assets turnover (3mks)
 - iv. Net profit margin (3mks)

(Note: Round off your ratio to one decimal place)

- b) The ABC company operates in an industry whose norms are as follows:

Ratio	industry Norm
Inventory turnover	6.2 times
Times interest earned ratio	5.3 times
Total assets turnover	2.2 times
Net profit margin	3%

Required:

Comment on the revelation made by the ratios you have computed in part (a) above when compared with the industry average. (8mks)

QUESTION FIVE

a) Explain any five circumstance under which a company may favour use of ordinary shares to source for funds (10 mks).

b) Explain five importance of capital investment decision by firms (10mks)

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SCHOOL OF BUSINESS AND ECONOMICS
ABA 202: INTRODUCTION TO FINANCE
COURSE OUTLINE SEPTEMBER –DECEMBER 2016
EVENING MAIN CAMPUS
INSTRUCTOR AMOS ASEMBO
CLASS MEETS TUESDAYS
TIME 5.30pm-8.00pm

Course Description: This course is intended to introduce the learners to the basic financial skills necessary for them to apply in real life financial management. It will expose the learners to scope and nature of business finance; sources of business finance; financial ratio analysis; financial forecasting; financial planning and budgeting; breakeven analysis; capital budgeting; financial structure analysis; application of leverage on cost of capital and finally introduction to budgeting control procedures.

Learning Objectives: The course is intended to impart basic financial skills and knowledge to the learners to enable them practically apply them in solving real financial problems in real life situation.

Expected Learning Outcomes: At the end of the course the learners are expected to:

- Understand the scope and nature of business finance
- Explain the various sources of business finance
- Solve the various financial ratios and interpret them accordingly
- Explain the various methods of financial forecasting
- Understand the concept of financial planning and budgeting
- Explain the breakeven analysis
- Explain and apply the various capital budgeting techniques
- Understand financial structure analysis
- Explain the application of leverage on the cost of capital
- Understand budgeting concept and budgeting control procedures

TOPICS COVERD

WEEK

TOPIC

ONE

-Nature and scope of business finance

TWO

-Sources of business finance

THREE

-Ratio analysis

FOUR

-Financial forecasting

FIVE

-Financial planning and budgeting

SIX

-Financial planning and budgeting

SEVEN

-Breakeven analysis

EIGHT

-Capital budgeting

NINE	-Financial structure analysis
TEN	-Application of leverage on the cost of capital
ELEVEN	-CAT
TWELVE	-Introduction to budgeting
THIRTEEN	-Control procedures.

Teaching methodology

Lecture, discussion and presentation

Grading

Assignment	10%
Sit-in-test	20%
Semester Examination	70%

REFERENCES:

Key text

Financial management by Robert Mudida.

1. Business Finance Simplified by N.A Saleemi.
2. E-Books from the library
3. Any other relevant materials.

END.