



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

UNIVERSITY EXAMINATIONS 2016

(SEPTEMBER-DECEMBER 2016)

**YEAR THREE FIRST SEMESTER EXAMINATIONS FOR BACHELOR OF BUSINESS ADMINISTRATION
WITH INFORMATION TECHNOLOGY**

(MAIN CAMPUS)

ABA 303: FINANCIAL MANAGEMENT

Date:

Time: 2Hours

INSTRUCTIONS

- 1. Answer Question ONE and any other TWO Questions**
- 2. Question ONE carries 30 marks, the rest 20 marks each**

QUESTION ONE

a) State five functions of capital markets (5mks)

b) State five factors which govern the choice of source of finance by firms (5mks)

c) State the steps involved in cash cycle (7mks)

d)The executive directors of Pesa ltd has circulated the following information 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 sales	25%	20%
iii) Number of days credit given	30days	45%days
iv) Administration cost of sales	7%	10%

Required make a brief report on each of the above 4 ratios indicating the reservation. If any you may have or judging them as improvement in performance. (4mks)

e) State three advantages each of N P V and Payback period of capital budgeting techniques (6mks)

f) Consider two investments A and B each having the following investment characteristics:

Investment	Expected Return %	Proportion
A	10	2/3
B	20	1/3

Required compute the expected return of a portfolio of two assets (3mks)

QUESTION TWO

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

b) Explain any five financial intermediaries in Kenya (10mks)

QUESTION THREE

The following financial statements related to the 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	649,500	other current liabilities	100,500
Total current assets	948,800	long term debt (10%)	300,000
Net fixed assets	285,750	Net worth	663,000
	<u>1,233,750</u>		<u>1,233,750</u>

Income statement for the year ended 31 March 2016.

Sales	sh.1,972,500
Less cost of sales	sh.1,368,000
Gross profit	sh.604,500
Selling and distribution expenses	sh.498,750
Earnings before interest and tax	sh.105,750
Interest expense	34,500
	sh.71,250
Estimated taxation (40%)	sh.28,500
Earnings after interest and tax	sh.42,750

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 FOUR

- 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	150,000	150,000
4	150,000	250,000

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

- a) Pay back period (4mks)
- b) Net present value (4mks)

c) Comment on the results (2mks)

QUESTION FIVE

(a) XYZ's management has set the minimum cash balance to be equal to sh. 10,000. The standard deviation of daily cash flow is sh 2,500 and the interest rate on marketable securities is 9% p.a. The transaction cost for each sale or purchase of securities is sh 20.

Required:

- i. Calculate the target cash balance (3mks)
- ii. Calculate the upper limit (3mks)
- iii. Calculate the average cash balance (3mks)
- iv. Calculate the spread (3mks)

(b) Write short notes on the following:

- i. Commercial paper (2mks)
- ii. Promissory notes (2mks)
- iii. Bank overdraft (2mks)
- iv. Treasury (2mks)

JARAMOGI OGINGA ODINGA UNIVERSITY
SCHOOL OF BUSINESS AND ECONOMICS
AB303: INTRODUCTION TO FINANCE
COURSE OUTLINE SEPTEMBER –DECEMBER 2016
REGULAR MAIN CAMPUS
INSTRUCTOR AMOS ASEMBO
CLASS MEETS WEDNESDAYS
TIME 7.00AM-9.00AM

Course Description: This course is intended to introduce the learners to the financial skills necessary for them to apply in real life financial management. It will expose the learners to Monetary mechanism and selected financial institution; sources of funds for investment; Money and markets; financial ratio analysis; financial forecasting; financial and operation leverage; Capital budgeting techniques; Portfolio management; capital asset pricing model; arbitrage; options and future; management of working capital including current assets and debtors and finally financing of current assets

Learning Objectives: The course is intended to impart 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:

- Explain monetary mechanism
- Explain the various financial institutions
- Explain the various sources of funds for investment
- Explain the concepts of money and markets
- Work out and interpret the various financial analysis
- Explain the various methods of financial forecasts
- Explain financial and operation leverage
- Explain portfolio management
- Understand the concept of asset pricing, arbitrage, options and futures in finance
- Explain the various methods of working capital management including current assets and debtors.
- Explain the financing of current assets

TOPICS COVERD

WEEK	TOPIC
ONE	-Monetary mechanism
TWO	-Financial institutions
THREE	-Sources of funds for investment
FOUR	-Money and markets
FIVE	-Financial analysis
SIX	-Financial analysis

SEVEN	-Financial forecasts
EIGHT	-Financial and operation leverage
NINE	-Capital budgeting techniques
TEN	-Portfolio management
ELEVEN	-CAT
TWELVE	-Capital asset pricing; arbitrage; options and futures
THIRTEEN	-Working capital management and financing of current assets.

Teaching methodology

Lecture, discussion and presentation

Grading

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

REFERENCES:

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

END.

