



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 2013/2014 ACADEMIC YEAR
BUSIA LC

COURSE CODE: ABA 202

COURSE TITLE: INTRODUCTION TO FINANCE

EXAM VENUE:

STREAM : (BBA)

DATE:10/12/14

EXAM SESSION: 2.00 - 4.00 PM

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

(a) Briefly explain the following:

- (i) Independent projects (2 marks)
- (ii) Mutually exclusive projects (2 marks)

(b) There are long term and short term financial sources of funds. Briefly explain any three in each category (6 marks)

(c) Briefly explain three functions of financial planning (6 marks)

(d) Differentiate the following:

- (i) Ordinary shares and Preference shares (2 marks)
- (ii) Trade credit and bank overdraft (2 marks)

(e) Wa-Bidii General suppliers Ltd wishes to evaluate an investment opportunity using discounted payback period for which it uses a 10% discount rate.

The following project X has a five year life and the estimated cash flows are as follows;

Year	Cash flows (Kshs)
0	(2,500,000)
1	1,000,000
2	1,000,000
3	1,200,000
4	500,000
5	350,000

Calculate the discounted payback period (10 marks)

Question Two

(a) Describe in brief the greatest difficulties facing capital budgeting in the real world. (10 marks)

(b) In evaluating the viability of a project, cash flows and not accounting profits are utilized.

Mention three reasons why cash flows are utilized in capital budgeting instead of accounting profits.

(10 marks)

Question Three

- (a) Briefly explain four factors contributing to the slow growth of the Security Exchange in developing economies (8 marks)
- (b) Enumerate four advantages of convertible bonds from the point of view of the borrower. (8 marks)
- (c) What is risk in terms of investment? How do you mitigate market risk? (4 marks)

Question 3

The following financial statements were prepared from the books of Jao Mumias Trading, Profit and Loss Account for the year ended 31st December 2013

	Kshs	Kshs.
Sales: Cash	720,000	
Credit	<u>1,940,000</u>	2,660,000
Less cost of sales:		
Opening stock	250,000	
Purchases (all credit)	<u>1,500,000</u>	
	1,750,000	
Less Closing stock		
Gross Profit	(290,000)	(1,460,000)
Less Expenses		1,200,000
Less: Estimated Corporate tax		(800,000)
Less : Proposed dividend		400,000
Net Profit		200,000
Add: Balance brought forward		(160,000)
		40,000
		150,000
		190,000

Balance Sheet as at 31st December 2013

	2013 Shs	2012 Shs
Non-Current Assets;	650,000	720,000
Current Assets:		
Stock	280,000	168,000
Debtors	170,000	165,000
Prepayments	5,000	7,000
Bank	29,000	--
Cash	100,000	20,000
	584,000	360,000
<u>Less Current Liabilities</u>		
Creditors	50,000	75,000
Taxation	200,000	160,000
Dividends	160,000	150,000
Bank overdraft	----	45,000
	410,000	430,000
Net Current assets	174,000	(70,000)
	<u>824,000</u>	<u>650,000</u>
Financed by:		
Capital Ordinary shares	434,000	360,000
Profit and loss account	<u>190,000</u>	<u>180,000</u>
	624,000	540,000
10% Debentures	<u>200,000</u>	<u>110,000</u>
Accruals	<u>824,000</u>	<u>650,000</u>

Required:

(a) Calculate the following ratios for the year ended 31st December 2013 (20 marks)

- (i) Non-current assets turnover
- (ii) Average collection period (in days)
- (iii) Creditors turnover
- (iv) Stock turnover
- (v) Return on capital employed
- (vi) Gross profit margin
- (vii) Net profit margin

(b) Compare for the year ended 31st December 2012 and 2013

(i) Current ratio

(ii) Quick ratio

Question 4

(a) Briefly explain the importance of sensitivity analysis with specific reference to investment appraisal under uncertainty. (10 marks)

(b) Mention three limitations of sensitivity analysis (6 marks)

(c) Briefly explain the following (4 marks)

(i) Current ratio

(ii) Quick ratio

Question 5

(a) Describe in brief the greatest difficulties facing capital budgeting in the real world.

(10 marks)

(b) In evaluating the viability of a project, cash flows and not accounting profits are utilized.

Mention three reasons why cash flows are utilized in capital budgeting instead of accounting profits.

(10 marks)