BBA Y2S2 MAIN EVENING

ABA 202 INTRODCUTION TO FINANCE – END SEMESTER EXAMINATION

PART ONE

Question 1 (Compulsory)

(A) Discuss two theories of dividend (Marks 4)

(B) Write notes on

I. Breakeven Analysis

II. Time value of money

III. Budgeting

IV. Agency Problem (Marks 8)

(C) The following are the summarized profit and loss account of Nyamonye Investment Ltd. for the year ending 31 Dec. 2003 and the Balance sheet as on that date:

Dr Profit and Loss Account

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Particulars	kshs	Particulars		kshs
To Opening Stock *To Purchases* *To Freight Expenses* *To Gross Profit cld*	*10,000* *60,000* *5,000* *50,000* ***1,25,000***	By sales less:sales return by closing stock	120000 *10000*	110000 15000 ***1,25,000***
To Operating Expenses: *Office Expenses* *Administrative* *Selling and Distribution*	*5,000* *15,000* *5,000*	*By Gross Profit bId*		*50,000*
		Non-Trading Income: *Interest on Investment*		*5000*
To Non-Operating Expenses: *Loss on Sale of Fixed Assets*	*1000*	*Profit on sale of fixed Assets*		*1000*
To Net Profit	*34,000*	*Dividend Received*		*4000*

	60000			***60000***

Balance Sheet for the year ending 31st Dec. 2001

Liabilities Share Capital Reserves Debenture Current Liabilities Profit and Loss *Nc*	15,000 3,000 12,000 20,000 5,000 **55,000**	***Assets*** Cash in Hand Cash at Bank Marketable Securities Inventories Sundry Debtors Prepaid Expense Land and Building	2,000 3,000 5,000 15,000 6,000 4,000 20,000 **55,000**	

You are required to calculate:
(a) Current Ratio
(b) Liquid Ratio

I. Gross Profit Ratio
II. Net profit ratio
III. Operating Profit Ratio
IV. Opearting ratio

(Marks 18)

PART TWO: ATTEMPT TWO QUESTIONS

Question 2

(A) A company is considering two mutually exclusive projects requiring an initial cash outlay of Sh 10,000 each and with a useful life of 5 years. The company required rate of return is 10% and the appropriate corporate tax rate is 50%. The projects will be depreciated on a straight line basis. The before depreciation and taxes cashflows expected to be generated by the projects are as follows.

YEAR	1	2	3	4	5
Project A	Shs 4,000	4,000	4,000	4,000	4,000
Project B	Shs 6,000	3,000	2,000	5,000	5,000

Required:

a) Calculate for each project

I. The payback period

II. The average rate of return

III. The net present value

IV. Profitability index

V. The internal rate of return

VI. Which project should be accepted? Why? (Marks 15)

b) Explain factors to consider while choosing a source of finance (Marks 5)

Question 3

Assume XYZ ltd is considering a project which costs sh.100 000 to be financed by 50% equity with a cost of 21.6% and 50% debt with a pre-tax cost of 12%.The financing method would maintain the company's overall cost of capital to remain unchanged. The project is estimated to generate cash flows of sh.36 000 p.a. before interest charges and corporate tax at 33%.

Required:

a) Evaluate the project using:

i. NPV method (Marks 5)

ii. APV method (Marks 5)

b) Discuss three theories of Capital structure (Marks 6)

c) In January, 1999 the total asset of the ABC Co were 270M.The firms present capital structure below is considered optimal.

	Amount
Debt	135M
Common equity	135M

New bonds will have 10% coupon .Common stock currently selling at ksh 60per share can be sold at ksh 54 per share. Stock holders require rate of return is estimated to be 12% consisting of a dividend yield of 4% and expected growth rate of 8%.Retained earnings are estimated to be ksh 13.5M.Marginal tax rate is 40%.calculate the WACC (Marks 4)

Required: Calculate and interpret the following ratios

I. Current Ratio
II. Liquid Ratio
III. Gross Profit Ratio
IV. Net profit ratio
V. Operating Profit Ratio (Mark 10)

Question 4

a) Compare and contrast Debenture and Term loans as sources of Business finance (8Marks)

b) Discuss four dividend policies giving advantages and disadvantages of each. (8Marks)

c) Discuss Four Limitations of ratios analysis citing practical examples in Kenya (Mark4)