

**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
KISUMU CAMPUS**

**ABA 202_INTRODUCTION TO FINANCE
FINAL EXAMINATIONS**

Time: 2 Hours

SECTION A: (COMPULSORY QUESTION)

QUESTION 1

- i. List four functions of finance to an organization. (4 Marks)
- ii. Explain five constraints in the development of a venture capital market in Kenya. (10 Marks)
- iii. Explain five importance of ratio analysis to a firm. (10 Marks)
- iv. A company will elect 6 directors and there are 100,000 shares entitled to vote,

Required.

- a. If a group desires to elect two directors, how many shares must they have? (2 Marks)
 - b. Shareholder A owns 10,000 shares while shareholder B owns 40,000 shares how many directors can each elect? (4 Marks)
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SECTION B: (ANSWER ANY TWO QUESTIONS)

QUESTION 2

- i. Explain four importance of venture capital market in small and medium scale business development in Kenya. (4 Marks)
- ii. A company negotiates a Sh.30 million loan at 14% pa from a financial institution.

Required.

Prepare the loan prepayment schedule assuming that:

- a) Interest & principle paid in 8 equal year end installments (8 Marks)
- b) Principle is paid in 8 equal instalments (8 Marks)

QUESTION 3

- i. Explain four problems encountered in the determination of the cost of capital (8 Marks)
- ii. A Ltd intends to issue new equity shares. Its present equity shares are being sold in the market at Kshs. 125 a share. The company's past record regarding payment of dividends is as follows:

2014: 10.70%; 2015: 11.45%; 2016: 12.25%; 2017: 13.11%; 2018: 14.03%.

The floatation costs are estimated at 3% of the current selling price of the shares.

You are required to calculate:

- i) Growth rate in dividends. (4 Marks)
- ii) Cost of funds raised by issue of equity shares assuming that the growth rate as calculated under (a) above will continue forever. (4 Marks)
- iii) Cost of new equity shares. (4 Marks)

QUESTION 4

The following financial statements for BGS technologies are provided below.

BGS Technologies
Income Statement
Year Ended December 31, 2017

Sales	\$ 1,000,000
Cost of goods sold	<u>550,000</u>
Gross profit	450,000
Research and development expense	100,000
Selling, general and admin. expenses	<u>150,000</u>
Operating income	200,000
Other income (expense):	
Special item – Lawsuit settlement	(125,000)
Special item – Loss from flood	(25,000)
Interest income	50,000
Interest expense	<u>(25,000)</u>
Income from continuing operations before taxes	75,000
Income tax provision	<u>18,750</u>
Income from continuing operations	56,250
Gain from discontinued operations (net of tax)	<u>110,250</u>
Net Income	\$ <u>166,500</u>

BGS Technologies
Balance Sheet
As of December 31, 2017

Assets		
Current Assets:		
Cash and cash equivalents	\$ 25,000	
Short-term investments	50,000	
Accounts receivable	80,000	
Inventory	<u>150,000</u>	
Total current assets		\$ 305,000
Property, Plant & Equipment:		
Land	80,000	
Buildings	475,000	
Equipment, furniture & fixtures	310,000	
Less: accumulated depreciation	<u>(320,000)</u>	
Net property, plant and equipment		<u>545,000</u>
Total Assets		<u>\$ 850,000</u>
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 55,000	
Current portion of long-term debt	20,000	
Income taxes payable	<u>10,000</u>	
Total current liabilities		\$ 85,000
Noncurrent Liabilities:		
Long-term debt		<u>150,000</u>
Total liabilities		235,000
Stockholders' Equity:		
Common stock (100,000 shares)	10,000	
Additional paid-in capital	290,000	
Retained earnings	<u>315,000</u>	
Total stockholders' equity		<u>615,000</u>
Total Liabilities and Stockholders' Equity		<u>\$ 850,000</u>

BGS Technologies
Cash Flow Statement
Year Ended December 31, 2017

Cash Provided (Used) by Operating Activities:		
Net income		\$ 166,500
Depreciation expense		32,000
(Increase) Decrease in operating current assets		(45,000)
Increase (Decrease) in operating current liabilities		<u>(8,000)</u>
Cash provided by operating activities		145,500
Cash Provided (Used) by Investing Activities:		
(Increase) in property, plant & equip.	\$ (315,000)	
Decline in ST investments	<u>110,000</u>	
Cash (used) in investing activities:		(205,000)
Cash Provided (Used) by Financing Activities:		
(Decrease) in long-term debt	(50,000)	
Dividends paid	(30,000)	
Increase in common stock	10,000	
Increase in additional paid in capital	<u>140,000</u>	
Cash provided by financing activities		<u>70,000</u>
Increase in cash and equivalents		10,500
Cash and cash equivalents, beginning of year		<u>14,500</u>
Cash and cash equivalents, end of year		<u>\$ 25,000</u>

Required.

- i. Current ratio (2 marks)
- ii. Quick ratio (2 marks)
- iii. Profit margin ratio (2 marks)
- iv. Gross profit margin (2 marks)
- v. Operating profit margin (2 marks)
- vi. Net profit margin (2 marks)
- vii. Return on assets (2 marks)
- viii. Return on equity (2 marks)
- ix. Receivables turnover (2 marks)
- x. Inventory turnover (2 marks)

QUESTION 5

- i. List any three agency relationships that may exist in a firm (3 Marks)
- ii. List some conflicts that may arise from the listed agency relationships in i above – two conflicts per agency relationship. (6 Marks)
- iii. How can the conflicts be resolved? (11 Marks)