JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS AND ECONOMICS

UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION WITH IT

SECOND YEAR SECOND SEMESTER 2018/2019 ACADEMIC YEAR

MAIN CAMPUS

COURSE CODE: ABA 202

COURSE TITLE: INTRODUCTION TO BUSINESS FINANCE

Instructions:

Answer any **THREE** questions. Questions **ONE** is compulsory.

QUESTION ONE

a. Define long terms and short terms finance decisions. Also explain the major roles of finance manager. (10mks)

b. Exactly ten years from now Suleiman will start receiving pension from ICEA-Lion Insurance Company of ICSU 30,00/= a year. The payment will continue for the next sixteen years. Calculate the present value of this pension fit generates interest of 10%? (5mks)

c. Who are the major users of financial analyses? (5 mks)
Gilani supermarket has made plans for the next year. It is estimated that the company will employ assets of kshs 800,000/= of which 50% of the assets will be financed by 8% p.a debt. The direct costs for the year are estimated at kshs.480,000/= and all others operating expenses are estimated at kshs 80,000/=.The goods will be sold to customers at 150%of the direct costs. Tax rate budget is 50%of net income before taxes.

Requires:-Calculate

a. Net profit margin
b. Return on assets
c. Assets turn over
d. Return onworner;s equity (15 marks)

QUESTION TWO

a. Define the concept of the opportunity cost of capital
b. Assuming that a firm pays tax at 50%,compute after tax cost of;-

    a. A 8.5%preferences shares sold at par
    b. A pespectinol bond sold at par with a 7%c.
    c. An ordinary share selling at current market price of kshs120/= and paying current dividend of ksh 9/= per share, which i.e. expected to grow at 8%

c. Twiga chemicals limited has the following book value capital structure as at 31/3/2014;in kshs share capital 450,000/= ;Reserves and surplus 150,000/=;Preference shares 100,000/=;Debt 300,000/= The expected after tax component costs of share capital 450,000/= ;Reserves and surplus 150,000/=;Preference shares 100,000/=;Debt 300,000/= The expected after tax component costs of various sources of finance for the company are as follows; Equity 18$;Reserve and surplus 18%;Preferences shares 11$;Debt 8%.

Required:-
Calculate the weighted average cost of capital for the company (6 marks)

QUESTION THREE

a. Discuss the importance of investment decisions

b. Equipment A has a cost of kshs 75000/= and net cash fow of kshs 20,000/=per year for the next six years. A substitute equipment B would cost kshs 50,000/= and generate net cash flow of kshs 14,000/= per year for six years. The required rate of returns for both equipments is 11%.Calculate the IRR and NPV for the equipments. Which equipment should be accepted and why? (15 marks)

QUESTION FOUR

a. What is the net concept of working of capital? (5 marks)

b. Explain both the dangers of either excessive or inadequate working capital (5marks)

c. A company is currently selling 100,000/= units of its product at kshs 50%per unit. At the current level of production, the cost per unit is kshs 45/=; variable cost per unit being kshs40/=.The company is currently extending one month’s credit to its customers. It is thinking of extending credit period to two months in the expectation credit period to two months in the expectation that sales will increase by 25%.If the required rate of return (before tax)on the firms investment in 30%.

Required:-Is the new credit policy desirable?
Show your workings (10 marks)

QUESTION FIVE

a. Specify the limiting assumptions of cost-volume profit analysis (5 marks)

b. A company makes single product with a sales price of kshs 100/= and a marginal cost of kshs 60/=.Fixed copsts are kshs 600,000/=

Required;-

a. Number of units and revenue level to break even
b. Number of units and revenue to achieve a profit of kshs 200,000/=