



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 2018/2019 ACADEMIC YEAR
KISII CAMPUS-PART TIME

COURSE CODE: ABA 202

COURSE TITLE: INTRODUCTION TO FINANCE

EXAM VENUE:

STREAM: (BBA) YEAR 2 SEM 1.

DATE:-----

EXAM SESSION: --

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) Discuss the factors that a company should consider when choosing between equity and debt as sources of finance. (4 Marks)
- b) Explain the objective/Goals of the organization (6 Marks)
- c) Discuss the solutions to agency problems between the shareholders and management conflict of interest. (6 Marks)
- d) Explain the differences between systematic risk and unsystematic risk. (4 Marks)
- e) Remex limited intends to purchase a machine worth Shs.1, 500,000 which will have a residue value Shs.200, 000 after 5 years useful life. The saving in cost resulting from the use of this machine are:

	Shs.
Year 1	800,000
Year 2	350,000
Year 3	-
Year 4	680,000
Year 5	775,000

Using NPV method, advice the company whether this machine should be purchased if the cut off rate is 14% and acceptable saving in cost is 12% of the cost of the investment. (10Marks)

QUESTION TWO:

- a) Discuss the factors that might influence the capital structure decision. (10 Marks)
- b) Explain five functions of financial managers. (10 Marks)

QUESTION THREE.

The following is the capital structure of XYZ Ltd as at 31/12/2018.

	Shs.'000"
Ordinary share capital Sh.10 par value	400
Retained earnings	200
10% preference share capital Sh.20 par value	100
	<u>200</u>
12% debenture Sh.100 par value	<u>900</u>

Additional information

1. Corporate tax rate is 30%
2. Preference shares were issued 10 years ago and are still selling at par value MPS = Par value
3. The debenture has a 10 year maturity period. It is currently selling at Sh.90 in the market.
4. Currently the firm has been paying dividend per share of Sh.5. The DPS is expected to grow at 5% p.a. in future. The current MPS is Sh.40.

Required

- a) Determine the WACC of the firm. (15 Mark)
- b) What are the weaknesses associated with WACC when used as the discounting rate, in project appraisal. (5 Marks)

QUESTION FOUR:

Explain the following:

- i. Financial forecasting (4 Marks)
- ii. Financial analysis (4 Marks)
- iii. Liquidity preference theory. (4 Marks)
- iv. Expectation theory. (4 Marks)
- v. Market segmentation theory. (4 Marks)

QUESTION FIVE:

- a) Explain the importance of financial forecasting in the organization. (10 Marks)
- b) Discuss the limitations of ratios in financial statements analysis. (10 Marks)

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