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

KISUMU CAMPUS

COURSE CODE: ABA 202

COURSE TITLE: INTRODUCTION TO FINANCE

EXAM VENUE: **STREAM: (BBA) YEAR 2 SEM 1.**

DATE:12/08/19 **EXAM SESSION: 9.00 – 11.00AM**

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.**

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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)

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)

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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	550,000
Gross profit	450,000
Research and development expense	100,000
Selling, general and admin. expenses	150,000
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	(25,000)
Income from continuing operations before taxes	75,000
Income tax provision	18,750
Income from continuing operations	56,250
Gain from discontinued operations (net of tax)	110,250
Net Income	$ 166,500

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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	150,000	
Total current assets		$ 305,000
Property, Plant & Equipment:		
Land	80,000	
Buildings	475,000	
Equipment, furniture & fixtures	310,000	
Less: accumulated depreciation	(320,000)	
Net property, plant and equipment		545,000
Total Assets		$ 850,000

Liabilities and Stockholders' Equity

Current Liabilities:		
Accounts payable	$ 55,000	
Current portion of long-term debt	20,000	
Income taxes payable	10,000	
Total current liabilities		$ 85,000
Noncurrent Liabilities:		
Long-term debt		150,000
Total liabilities		235,000
Stockholders' Equity:		
Common stock (100,000 shares)	10,000	
Additional paid-in capital	290,000	
Retained earnings	315,000	
Total stockholders' equity		615,000
Total Liabilities and Stockholders' Equity		$ 850,000

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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		(8,000)
Cash provided by operating activities		145,500
Cash Provided (Used) by Investing Activities:		
(Increase) in property, plant & equip.	$ (315,000)	
Decline in ST investments	110,000	
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	140,000	
Cash provided by financing activities		70,000
Increase in cash and equivalents		10,500
Cash and cash equivalents, beginning of year		14,500
Cash and cash equivalents, end of year		$ 25,000

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)

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