



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 2019/2020 ACADEMIC YEAR

COURSE CODE: ABA 202

COURSE TITLE: Introduction to Finance

EXAM VENUE:

STREAM : (BBA)

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) Briefly explain the following:

- (i) Independent projects (2 marks)
- (ii) Mutually exclusive projects (2 marks)

(b) There are long term and short term financial sources of funds. Briefly explain any three in each category (6 marks)

(c) Briefly explain three functions of financial planning (6 marks)

(d) Differentiate the following:

- (i) Ordinary shares and Preference shares (2 marks)
- (ii) Trade credit and bank overdraft (2marks)

(e) Wa-Bidii General suppliers Ltd wishes to evaluate an investment opportunity using discounted payback period for which it uses a 10% discount rate.

The following project X has a five year life and the estimated cash flows are as follows;

| Year | Cash flows (Kshs) |
|------|-------------------|
| 0 | (2,500,000) |
| 1 | 1,000,000 |
| 2 | 1,000,000 |
| 3 | 1,200,000 |
| 4 | 500,000 |
| 5 | 350,000 |

Calculate the discounted payback period (10marks)

Question 2

(a) Describe in brief the greatest difficulties facing capital budgeting in the real world. (10 marks)

(b) In evaluating the viability of a project, cash flows and not accounting profits are utilized. Mention three reasons why cash flows are utilized in capital budgeting instead of accounting profits. (10 marks)

Question Three

- (a) Briefly explain four factors contributing to the slow growth of the Security Exchange in developing economies (8 marks)
- (b) Enumerate four advantages of convertible bonds from the point of view of the borrower. (8 marks)
- (c) What is risk in terms of investment? How do you mitigate market risk? (4 marks)

Question 3

The following financial statements were prepared from the books of Jao Mumias Trading, Profit and Loss Account for the year ended 31st December 2013

| | Kshs | Kshs. |
|-------------------------------|------------------|----------------|
| Sales: Cash | 720,000 | |
| Credit | <u>1,940,000</u> | 2,660,000 |
| Less cost of sales: | | |
| Opening stock | 250,000 | |
| Purchases (all credit) | <u>1,500,000</u> | |
| | 1,750,000 | |
| Less Closing stock | | |
| Gross Profit | (290,000) | (1,460,000) |
| Less Expenses | | 1,200,000 |
| Less: Estimated Corporate tax | | (800,000) |
| Less : Proposed dividend | | 400,000 |
| Net Profit | | 200,000 |
| Add: Balance brought forward | | (160,000) |
| | | 40,000 |
| | | 150,000 |
| | | 190,000 |

Balance Sheet as at 31st December 2013

| | 2013 Shs | 2012 Shs |
|---------------------------------|-----------------------|-----------------------|
| Non-Current Assets; | 650,000 | 720,000 |
| Current Assets: | | |
| Stock | 280,000 | 168,000 |
| Debtors | 170,000 | 165,000 |
| Prepayments | 5,000 | 7,000 |
| Bank | 29,000 | -- |
| Cash | 100,000 | 20,000 |
| | 584,000 | 360,000 |
| <u>Less Current Liabilities</u> | | |
| Creditors | 50,000 | 75,000 |
| Taxation | 200,000 | 160,000 |
| Dividends | 160,000 | 150,000 |
| Bank overdraft | ---- | 45,000 |
| | 410,000 | 430,000 |
| Net Current assets | 174,000 | (70,000) |
| | <u>824,000</u> | <u>650,000</u> |
| Financed by: | | |
| Capital Ordinary shares | 434,000 | 360,000 |
| Profit and loss account | <u>190,000</u> | <u>180,000</u> |
| | 624,000 | 540,000 |
| 10% Debentures | <u>200,000</u> | <u>110,000</u> |
| Accruals | <u>824,000</u> | <u>650,000</u> |

Required:

(a) Calculate the following ratios for the year ended 31st December 2013 (20 marks)

- (i) Non-current assets turnover
- (ii) Average collection period (in days)
- (iii) Creditors turnover
- (iv) Stock turnover
- (v) Return on capital employed
- (vi) Gross profit margin
- (vii) Net profit margin

(b) Compare for the year ended 31st December 2012 and 2013

(i) Current ratio

(ii) Quick ratio

Question 4

(a) Briefly explain the importance of sensitivity analysis with specific reference to investment appraisal under uncertainty. (10 marks)

(b) Mention three limitations of sensitivity analysis (6 marks)

(c) Briefly explain the following (4 marks)

(i) Current ratio

(ii) Quick ratio

Question 5

(a) Describe in brief the greatest difficulties facing capital budgeting in the real world.

(10 marks)

(b) In evaluating the viability of a project, cash flows and not accounting profits are utilized. Mention three reasons why cash flows are utilized in capital budgeting instead of accounting profits. (10 marks)