



**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 2016/2017 ACADEMIC YEAR
MAIN CAMPUS REGULAR**

**COURSE CODE : ABA 202
COURSE TITLE : INTRODUCTION TO BUSINESS FINANCE**

TIME: 2 HOURS

Instructions:

- 1. Answer Question ONE (COMPULSORY) and ANY other TWO 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.) Broadly define the role of finance in a business environment (5 marks)
- b.) Explain at least five major sources of business finance for both short term and long term (5 marks)
- c.) Define the four fundamental issues which are the concern of finance managers in their day to day financial management processes (5 marks)
- d.) Exactly ten years from now Hamisi will start receiving a pension of Kshs. 50,000 per year. The payment will continue for the next sixteen years. How much is the pension worth now given the discounting rate of 10%? (5 marks)
- e.) What is Cash Budget? Illustrate your answer with the following:
The opening cash balance on 1/1/2014 was Kshs. 30,000. The sales budget were as follows (in Kshs).

| | |
|----------|----------|
| November | 80,000/- |
| December | 90,000/- |
| January | 75,000/- |
| February | 75,000/- |
| March | 80,000/- |

Debtors' record show that they settle accounts according to the following pattern: 60% within the month of sale; 25% the month following and 15% the month following:

Purchase budget for the period was as follows:

| | |
|----------|----------|
| December | 60,000/- |
| January | 55,000/= |
| February | 45,000/- |
| March | 55,000/- |

All purchases are on credit and 90% of purchases are settled in the month of purchase and the balance settled a month after:

Wages are Kshs. 15,000/-
Overheads (including 5,000/-, 20,000/-)

Above are settled depreciation every month as they are incurred. Taxation of Kshs. 8,000/- is settled in February and the company will receive settlement of insurance claim of Kshs. 25,000/- in March.

Required:

Prepare a cash budget for January, February and March (10 marks)

QUESTION TWO

- a.) What is Budgetary Planning and Control (5 marks)
b.) The following are the summarized profit and loss of Galaxy Products for the year ending 31/12/2014 and the balance sheet on that date

Profit and Loss Account

| | Shs. | | Shs. |
|-------------------------------|------------------------|-----------------------------|----------------|
| Opening Stock | 99,500 | Sales | 850,000 |
| Purchases | 545,250 | Closing Stock | 149,000 |
| Misc. Expenses | 14,250 | | |
| Gross Profit | 340,000 | | |
| | 999,000 | | 999,000 |
| | To Gross Profit | | 340,000 |
| Operating Expenses: | | Non-Operating Income | |
| Sales & Distribution | 30,000 | Interest | 3,000 |
| Administrative | 150,000 | Profit on Sale of Shares | 6,000 |
| Finance | 15,000 | | |
| | 195,000 | | 9,000 |
| Non-Operating Expenses | | | |
| Loss on sale of Assets | 4,000 | | |
| To Net Profit | 150,000 | | |

Balance Sheet

| | | | |
|--|----------------|-------------------|----------------|
| Issued Capital 2,000 Ordinary Shares of Kshs. 100 each | 200,000 | Land & Building | 150,000 |
| Reserves | 90,000 | Plant & Machinery | 80,000 |
| Current Liabilities | 130,000 | Inventory | 149,000 |
| Profit and Loss | 60,000 | Debtors | 71,000 |
| | | Cash | 30,000 |
| | 480,000 | | 480,000 |

Required:

Calculate the following ratios and their purpose in decision making:

- i.) Current ratio
- ii.) Operating ratio
- iii.) Stock Turnover
- iv.) Fixed Assets Turnover
- v.) Returns on capital Employed (15 marks)

QUESTION THREE

- a.) Marginal costing concept is synonymous with cost volume – profit analysis. Explain (5 marks)
- b.) A company makes a single product with a sales price of Kshs. 100 and a marginal cost of Kshs. 60/-. Fixed costs are Kshs. 600,000/-

Required:

- i.) Number of units and revenue level to break even
- ii.) Number of units and revenue needed to achieve a profit of Kshs. 200,000/- (15 marks)

QUESTION FOUR

- i.) What are the various concepts of cost capital? Why should they be distinguished in financial management (5 marks)
- ii.) A service company has the following capital structure on 30/06/2014

| | |
|-----------------------|---------------------|
| | Kshs. 000 |
| Ordinary Shares | 4,000 |
| 10% Preference Shares | 1,000 |
| 14% Debentures | <u>3,000</u> |
| | <u>8,000</u> |

The company shares sell at Kshs. 20. The company is expected to pay a dividend of Kshs. 2 next year per share which will grow at 7% in perpetuity. Assume a 50% tax rate.

Required:

- i.) Compute a WACC based on the existing capital structure (7 marks)

- ii.) Compute the new WACC if the company raises an additional Kshs. 2 million 15% debenture. This increases the expected dividend to Kshs. 3/- and the same growth rate, however the price of the share will fall to Kshs. 15/- per share (8 marks)

QUESTION 5

- a.) Explain the importance of investment decisions (10 marks)
- b.) A project costs Kshs. 16,000/- and is expected to generate cash flows of Kshs. 8,000/-, Kshs. 7,000/- and Kshs. 6,000 at the end of each year for the next 3 years.

Required:

Calculate the IRR for this project (10 marks)