

JARAMOGI OGINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS AND ECONOMICS

UNIVERSITY EXAMINATION FOR 2018/2019 ACADEMIC YEAR

**FOR DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION WITH IT (SUPPLY CHAIN
MANAGEMENT OPTION) AND BACHELOR OF LOGISTICS AND SUPPLY CHAIN MANAGEMENT YEAR
FOUR SEMESTER ONE**

COURSE CODE: ABA 439/ BBM 3411

COURSE TITLE: FINANCE MANAGEMENT

DATE:

TIME: 2.00 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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QUESTION ONE:

- a) Discuss the advantages of cash budgeting as a means of managing organizations cash (3 marks)
- b) Enumerate the role of balance sheet and cash flows in decision making process (4 marks)
- c) Enumerate at least FIVE objectives of a business firm (5 marks)
- d) Explain in details the various types of debentures (5 marks)
- e) Identify various stages of capital budgeting process (5 marks)
- f) X Y Z's management has set the minimum cash balance to be equal to sh. 10,000. The standard deviation of daily cash flow is sh 2,500 and the interest rate on marketable securities is 9% p.a. The transaction cost for each sale or purchase of securities is sh 20.

Required:

- i) Calculate the target cash balance (2 marks)
- ii) Calculate the upper limit (2 marks)
- iii) Calculate the average cash balance (2 marks)
- iv) Calculate the spread (2 marks)

QUESTION TWO

- a) Maria Ltd is expected to grow 10% per year. Maria’s ordinary shares pay a dividend of kshs: 2.00 and sell for kshs: 25.00. What is Maria’s cost of equity capital (4 marks)
- b) Why is debt capital cheaper than equity capital in company finance (2 marks)
- c) From the data given below calculate the firm’s weighted average cost of capital.

Assume there are no taxes.

Amount: Equity	Kshs: 300,000
Debt	<u>100,000</u>
Total capital employed	400,000

(5 marks)

- d) You are given that the rate of tax is 45%, the cost of debt (before tax) is 10% and the cost of equity is 15%.

Calculate:

- i) Effective cost of debt (3 marks)
- ii) The cost of equity capital (3 marks)
- e) Other things being equal, does the use of debt financing where tax exists increase or reduce the firm’s weighted average cost of capital and why? (3 marks)

QUESTION THREE

From the information below determine the future values using interest rate of 9%

- i) The future value of Kshs: 40,000 invested now for a period of 8 years (6 marks)
- ii) The future value at the end of five years of an investment of Kshs: 16,000 now and Kshs: 10,000 one year from now (7 marks)
- iii) The future value at the end of eight years of an investment of Kshs: 20,000 at the end of each of the first four years and withdrawal of Kshs: 15,000 per year at the end of five years through to seven. (7 marks)

QUESTION FOUR

- a) Explain FIVE qualities of an effective investment evaluation technique (5 marks)
- b) List and Explain the advantages and limitations of the following capital investment methods:
- i) Payback methods (2 marks)
 - ii) Accounting Rate of Return (ARR) (2 marks)
 - iii) Net Present Value (NPV) (2 marks)
 - iv) Internal Rate of Return (IRR) (2 marks)
- c) A firm is considering two mutually exclusive projects where each require an initial outlay of Kshs: 50,000 with the following net cash flows:

Year	Project A	Project B
1	20,000	30,000
2	30,000	20,000
3	10,000	10,000
4	5,000	5,000

The firms cost of capital is 10%. For each project calculate:

- i) Payback period (3 marks)
- ii) Net present value (3 marks)
- iii) Comment on the results (1 marks)

QUESTION FIVE

- a) List and Discuss any SIX limitations of Ratio Analysis (6 marks)
- a) Write short notes on the following:
- i) Financial implication (1 marks)
 - ii) Capital Rationing (3 marks)
- b) XYZ Company Limited whose net income was Kshs: 100,000 and Kshs: 200,000 for the year ended 2015 and 2016 respectively is a manufacturing company based in Nairobi, Kenya. The following information was extracted from the company's books of accounts for the year ended December 2016 and December 2015:

Sr. No.	Item	31 st Dec 2016 (Kshs)	31 st Dec 2015 (Kshs)
I	Share Capital	100,000	100,000
li	Current Tax Payable	5,000	2,000
li	Cash and Cash Equivalents	8,000	10,000
Iv	Intangible Assets	60,000	50,000
V	Trade Receivables	25,000	30,000
Vi	Long-Term borrowings	35,000	50,000
Vii	Property, Plant and Equipment	130,000	120,000
Viii	Revaluation Reserve	15,000	10,000
Ix	Current Portion of Long-Term borrowings	15,000	15,000
X	Goodwill	30,000	30,000
Xi	Trade and other payables	35,000	25,000
Xii	Inventories	12,000	10,000
Xiii	Retained Earnings	50,000	40,000
Xiv	Short-Term borrowings	10,000	8,000

Required:

Calculate the following financial ratios of XYZ Company as @ 31st December 2016

- a) Current Ratio (2 marks)
- b) Debt-Assets Ratio (2 marks)
- c) Debt-Equity Ratio (2 marks)
- d) Return on Assets (2 marks)
- e) Return on Equity (2 marks)