MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2012/2013

FIRST YEAR SECOND SEMESTER EXAMINATIONS FOR THE DIPLOMA IN BUSINESS ADMINISTRATION (CITY CAMPUS - DAY)

ADB 0107: BUSINESS FINANCE

Date: 23rd July, 2013 *Time: 9.00 – 11.00 a.m.*

INSTRUCTIONS

- Answer Question ONE and any other TWO questions.

QUESTION ONE

a) Write explanatory notes on the following:

i. Cost of capital (2 Marks)

ii. Weighted average cost of capital (2 Marks)

iii. Capital structure (2 Marks)

b) "Retained earnings represent a cost –free source of capital to a company" State giving reasons, whether you agree with the above statement. (6 Marks)

c) Nairobi Transporters Ltd. Have had a very good trading period and they would like to extend their business to make use of the favourable trading conditions.

They have planned to raise the additional finance from various sources as follows:-

- To issue 160,000 Ordinary Shares (Shs. 10 nominal value) at Shs. 15 each
- To issue 210,000 13% Prefence Shares (Shs. 10 nominal value) at Shs. 12 each
- To issue 210,000 15% Debentures of Shs. 100 at Shs. 90 each
- Finally they plan to raise a medium term loan of Shs. 5 million from a non-banking financial institution which will be at an interest of 20% p.a.

Required:

i. The total amount the company will raise if the plan is realized (6 Marks)

ii. The average cost of the additional finance (6 Marks)

N.B (1) Assume a corporation tax rate of 50%

(2) The ordinary shareholders are paid a dividend of 10%.

d) " Debt is the cheapest source of finance". Explain (6 Marks)

QUESTION TWO

a. Explain any FIVE SOURCES of finance available to an industrial concern. (10 Marks)

b. Discuss the relative advantages and disadvantages of regular dividend payments as compared to a policy which relates dividends more closely to earnings. (10 Marks)

QUESTION THREE

a. Enumerate TWO advantages and disadvantages of the following Investment appraisal techniques.

   i. Net Present Value (NPV) (2 Marks)

   ii. Internal Rate of Return (IRR) (2 Marks)

b. Nyaluoyo Ltd. Company is considering to undertake a project which requires initial cost of Ksh. 8.500.000 and is expected to give the following cash inflows:

Year	Ksh.
1.	1,800,000
2.	2,500,000
3.	1,000,000
4.	2,500,000
5.	3,000,000

The project has a salvage value of Ksh.1000, 000. The company's required rate of return is 10%. As a finance manager, advise the company. Your advice should be based on computation of the following:

i. . Net Present Value(NPV) of the project (4 Marks)

ii. Profitability Index(PI) (4 Marks)

iii. Internal Rate Of Return(IRR) (8 Marks)

QUESTION FOUR

a. State FIVE major limiting factors in application of ratio analysis. (5 Marks)

b. Majani Ltd. Is an expanding private company in the Agricultural sector. Accounts prepared in January 2007 included the following information:

Profit statement for the year ended 31st December

	2005	2006
	Ksh.	Ksh.
Sales	2000	3200
Less cost of goods sold	1100	1800
Gross profit	900	1400
Less: Trading expenses	450	550
Trading profit	450	850
Less: Debenture interest	25	25
Net profit before taxation	425	825
Less: Corporation Tax	160	320
Net profit after taxation	265	505
Less: Ordinary share dividend	125	175
Undistributed profit for year	140	330

Balance Sheet as at 31st December

	2005	2006
Sources of Capital	Ksh	Ksh.
Ordinary share		
Capital – authorized		
and Issued (£ 1 share)	500	500
Undistributed profit	350	680
10% Debentures	250	110
	1100	1290

	2005		2006
Uses of capital	Ksh		Ksh.
Fixed Assets			
at Cost	1000		1400
Less:			
Depreciation	200		250
	800		1150
Current Assets:			
Stocks	400	550	
Debtors	250	350	
Cash	80	730 -	900
Less: Current Liabilities			
Creditors	145	200	
Taxation	160	320	
Proposed dividend	125	175	
Bank Overdraft –	(430)	62	(760)
	1100		1290

You are required to calculate the following ratios for Majani Ltd:

i. Return On Capital Employed (R.O.C.E) (3Marks)
ii. Gross Profit Percentage (3 Marks)
iii. Net Profit Percentage (3 Marks)
iv. Current Ratio (3 Marks)
v. Quick or Acid Test Ration. (3 Marks)

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QUESTION FIVE

a) Discuss any FIVE factors that govern the volume of working capital that should be held by a manufacturing business concern. **(10 Marks)**

b) (i). Explain any THREE costs of currying stock that a business Concern May incur. **(6 Marks)**

(ii) A company has a monthly demand of for Material 'P' of 25000 Kg Per month. The cost price per Kg is Ksh. 2000 and the stock holding is 25% per month of the value of the stock. Delivery cost per batch is Ksh.400.

Required: Calculate Economic Order Quantity (E.O.Q) **(4 Marks)**