



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2013/2014

**SECOND YEAR FIRST SEMESTER EXAMINATIONS FOR THE
DEGREE BACHELOR OF BUSINESS ADMINISTRATION WITH
INFORMATION TECHNOLOGY
(HOMA BAY CAMPUS - WEEKEND)**

ABA 202: INTRODUCTION TO FINANCE

Date: 6th April, 2014

Time: 8.00 – 10.00am

INSTRUCTIONS:

- Answer QUESTION ONE and any other TWO questions.



1. a) Discuss the difficulties faced in the process of capital budgeting in the real world (10mks)
- b) Discuss five factors that determine working capital needs of a firm (10mks)
- c) A company is considering two mutually exclusive projects requiring an initial cash outlay of Shs. 10,000 each and with a useful life of 5 years. The company required rate of return is 10% and the appropriate corporate tax rate is 50%. The projects will be depreciated on a straight line basis. Then before depreciation and taxes cash flows expected to be generated by the projects are as follows:

Year	1	2	3	4	5
Project A	4,000	4,000	4,000	4,000	4,000
Project B	6,000	3,000	2,000	5,000	5,000

Required:

- a) Compute the after tax cash flows for each project (4mks)
- b) Payback period (4mks)
- c) Average rate of return (4mks)
- d) Net present value (4mks)
- e) Profitability index (2mks)
- f) Which project should be accepted and why? (2mks)
2. a) Discuss five limitations of gearing to company (10mks)
- b) In what ways is the wealth maximization objective superior to the profit maximization objective? Discuss (10mks)

3. Luveno transporters are capitalized as follows

7% preference shares of Shs. 10 each	Shs. 6,000,000
Ordinary shares of Shs. 10 each	<u>Shs. 16,000,000</u>
Total capital employed	<u>Shs. 22,000,000</u>

Additional information for year ended 31st December 2008

- Profit after tax (PAT) Shs. 5,420,000
- Ordinary share dividend paid is 20% and the market value of ordinary share Shs. 15 and market value of preference share is Shs. 20 each.
- Depreciation for year amounted to Shs. 1,200,000
- Corporation tax rate is 30%

Required:

Calculate the following ratios for its ordinary and preference shares:

- i. Dividend yields for both (6mks)
 - ii. Dividend covers for both (6mks)
 - iii. Earnings yield for ordinary shares (4mks)
 - iv. Price/earnings ratio for ordinary shares (4mks)
4. a) Discuss the factors that may affect the type of finance being sourced by a limited company? (10mks)
- b) Financial management is a concoction of many other disciplines/subjects. Discuss (10mks)
5. a) Within a financial management context, discuss the problems that might exist in the relationships (sometimes referred to as agency relationships) between:
- i. Shareholders and managers (5mks)
 - ii. Shareholders and creditors (5mks)
- b) Discuss how a company can attempt to minimize such problems? (10mks)