



# MASENO UNIVERSITY

## UNIVERSITY EXAMINATIONS 2012/2013

### SECOND YEAR SECOND SEMESTER EXAMINATIONS FOR THE DEGREE OF BACHELOR OF EDUCATION WITH INFORMATION TECHNOLOGY (CITY CAMPUS - SCHOOL BASED)

#### ABA 202: INTRODUCTION TO FINANCE

*Date: 29<sup>th</sup> August, 2013*

*Time: 2.00 – 4.00 p.m.*

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#### INSTRUCTIONS:

- ◆ Attempt Question ONE and any OTHER TWO questions.
- ◆ Question one carries 30 marks and the rest 20 marks each.
- ◆ Show all your workings clearly.



## QUESTION ONE

D) Yokia limited Company intends to purchase a machine worth Shs.1,500,000 which will have a residue value Shs.200,000 after 5 years useful life. The saving in cost resulting from the use of this machine are:

	Shs.
Year 1	800,000
Year 2	350,000
Year 3	-
Year 4	680,000
Year 5	775,000

Using NPV method, advise the company whether this machine should be purchased if the cut off rate is 14% and acceptable saving in cost is 12% of the cost of the investment.

(10 marks)

B) A project costs 16,200/= and is expected to generate the following inflows:

	Shs.
Year 1	8,000
Year 2	7,000
Year 3	6,000

Compute the IRR of this venture.

(8 marks)

C) Explain at least six principles of Corporate Governance as given by the Common Wealth Association of Corporate Governance (CACG) in 1999 and the Private Sector Corporate Governance Trust (PSCGT) in 1999.

(12 marks)

## QUESTION TWO

a) Outline the functions of a financial manager in a contemporary corporate set-up.

(12 marks)

b) Discuss the weaknesses associated with profit maximization goal?

(8 marks)

### QUESTION THREE

A)

A

An extract from the finance statements of Aus Investments Ltd is shown below:

	Shs.
Issued share capital:	
150,000 ordinary shares of Sh.10 each fully paid	1,500,000
10% loan stock 1999	2,000,000
Share premium	1,500,000
Revenue Reserve	<u>7,000,000</u>
Capital employed	<u>12,000,000</u>

Additional information.

- 1- The profits after 30% tax is Sh.600,000. However, interest charge has not been deducted.
- 2- Ordinary dividend payout ratio is 40%.
- 3- The current market value of ordinary shares Shs.36

#### Required

- a) Return on capital employed
- b) Earnings per share
- c) Price earnings ratio
- e) Gearing ratio

(12 marks)

B) Jack is contemplating purchasing a 3 year bond worth 40,000/= carrying a nominal coupon rate of interest of 10%. Jack's required rate of return is 6%. What should he be willing to pay now to purchase the bond if it matures at par?

(8 marks)

#### QUESTION FOUR

The following is the existing capital structure of New Ramogi Company Ltd.

	Shs.
Ordinary shares at Shs.10 par	1,000,000
Retained	800,000
12% preference shares Shs.10 par	400,000
16% loan Shs.100 par	<u>300,000</u>
Total capital employed	<u>2,500,000</u>

The company's ordinary shares have a dividend cover of 3 times and pays a dividend of 10% on its ordinary share capital.

Ordinary shares sell at Shs.18

Preference shares sell at Shs.15

Debentures are selling at par. The tax rate is 30%

#### Required:

- a) Calculate Growth in Equity. (10 marks)
- b) Compute W.A.C.C. (10 marks)

#### QUESTION FIVE

- A) Explain the practical difficulties of a small scale enterprise wishing to obtain credit to expand production?

(10 marks)

- B) Company XYZ pays a dividend of 10% on its Sh.60 par value ordinary shares. This company uses a discount rate of 15%. Assuming no growth, compute the value of its ordinary share if there's growth of 5%, what would be the value of this company's ordinary shares.

(10 marks)