



## **MASEÑO UNIVERSITY**

### **UNIVERSITY EXAMINATIONS 2013/2014**

**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: 28<sup>th</sup> November, 2013*

*Time: 2.00 – 4.00pm*

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#### **INSTRUCTIONS:**

- Answer QUESTION ONE and any other TWO questions.
- Show all workings clearly.

## QUESTION ONE

- a) Janam Ltd is an all equity firm whose Beta factor is 1.2, the interest rate on T. bills is currently at 8.5% and the market rate of return is 14.5%. Determine the cost of equity  $K_e$ , for the company. (4 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. (6 marks)
- c) Explain why small Companies find it difficult to raise debt finance in Kenya. (10 marks)
- d) Suggest solutions to the problems in (c) above. (5 marks)
- e) 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? (5 marks)

## QUESTION TWO

- a) Explain 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) 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

- i) Return on capital employed
- ii) Earnings per share
- iii) Price earnings ratio
- iv) Gearing ratio (12marks)

b) 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.

(8 marks)

#### QUESTION FOUR

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

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

Using NPV method, advice 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.

(10marks)

- b) A project costs Ksh.16,200/= and is expected to generate the following inflows:

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

Compute the IRR of this venture.

(10 marks)

### QUESTION FIVE

The following is the balance sheet of ALPHA Ltd as at 31<sup>st</sup> December 2010:

	Sh.'000'
Net fixed asset	300
Current assets	<u>100</u>
	<u>400</u>
Financed by:	
Ordinary share capital	100
Retained earnings	70
10% debentures	150
Trade creditors	50
Accrued expenses	<u>30</u>
	<u>400</u>

Additional Information:-

1. The sales for year 2010 amounted to Sh.500, 000. The sales will increase by 15% during year 2011 and 10% during year 2012.
2. The after tax return on sales is 12% which shall be maintained in future.
3. The company's dividend payout ratio is 80%. This will be maintained during forecasting period.
4. Any additional financing from external sources will be affected through the issue of commercial paper by company.

Determine the amount of external finance for 2 years up to 31<sup>st</sup> December 2012.

(20 marks)