



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2013/2014

**SECOND YEAR SECOND SEMESTER EXAMINATIONS FOR THE
DEGREE OF BACHELOR OF EDUCATION WITH INFORMATION
TECHNOLOGY**

(HOMA BAY - SCHOOL BASED)

ABA 202: INTRODUCTION TO FINANCE

Date: 9th December, 2013

Time: 11.00am - 1.00pm

INSTRUCTIONS:

- Answer QUESTION ONE and any other TWO questions.

QUESTION ONE

- (a) Distinguish between a weighted average cost of capital (WACC) and marginal cost of capital (MCC) **(10 marks)**
- (b) Nairobi Transporters LTD. Have had a very good trading period and they would like to extend their business to make use of the favorable trading conditions.

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

- To issue 150,000 ordinary shares (shs.10 nominal value) at shs.15 each
- To issue 200,000 13% preference shares (shs.10 nominal value) at shs.12 each
- To issue 200,000 15% debentures of shs 100 at shs.90 each
- Finally they plan to raise a medium term of shs.5 million from a non-banking financial institution which will be at an interest of 20%a.m

Required:

- (i) The total amount that the company will raise if the plan is realized **(10 marks)**
- (ii) The Weighted Average Cost of Capital for the additional finance **(10 marks)**

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

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

QUESTION TWO

A company has an investment opportunity costing Kshs 40,000 with the following expected net cash flow (i.e. after taxes and before depreciation):

YEAR	NET CASH FLOW (kshs)
1	7,000
2	7,000
3	7,000
4	7,000

5	7,000
6	8,000
7	10,000
8	15,000
9	10,000
10	4,000

Using 10% as the cost of capital (rate of discount) determine the following:

- (i) Pay Back period (5 marks)
- (ii) Net Present value at 10% discount factor (10marks)
- (iii) Profitability Index at 10% discount factor (5 marks)

QUESTION THREE

- (a) Explain the main sources of corporate business financing (10 marks)
- (b) State and explain the factors affecting working capital (6 marks)
- (c) Describe the role of a finance manager (4 marks)

QUESTION FOUR

- (a) What are the five main application of cost –volume, profit analysis (CVP) in business environment? (5 marks)
- (b) Firms X, Y and Z makes a similar product with the same selling price of Kshs.8 The firm's fixed costs are 80,000/=, 200,000/= and 330,000/= respectively. The variable costs consist of Kshs. 6/=, 4/=, and 3/= for firm's X, Y and Z respectively.
 - (i) Determine the break even points for all the firms. (5 marks)
 - (ii) How much profits are earned by the firms if each of them sells 80,000 units. (5 marks)
 - (iii) Calculate the impact on profitability if sales (a) increase (b) decreases by 20% (5 marks)

QUESTION FIVE

- (a) Explain the basic elements and purpose of a budget **(10 marks)**
- (b) ABC Ltd , Trading activities for the year ended 30th December

	Kshs	Administrative Expenses:-	Kshs
Sales Revenue	1,560,000.00	Salaries Expenses	81,000.00
Purchases	966,750.00	Rent Expenses	8,100.00
Opening stock	228,750.00	Utilities Expenses	7,500.00
Closing Stock	295,500.00	Depreciation Expenses	27,900.00
Sales Return	60,000.00	Miscellaneous Expenses	49,500.00
Selling and distribution expenses:-			
Salaries Expenses		Dividend receipts	27,000.00
Advertising expenses		Profit of sale of shares	9,000.00
Travelling expenses		Taxation	120,000.00

Required:

- (i) Prepare a profit and loss account for the period **(9 marks)**
- (ii) Calculate:
- (a) Gross profit Ratio **(2 marks)**
- (b) Operating Ratio **(2 marks)**
- (c) Stock Turnover **(2marks)**