



# MASENO UNIVERSITY

## UNIVERSITY EXAMINATIONS 2012/2013

FIRST YEAR FIRST SEMESTER EXAMINATIONS FOR  
THE DEGREE OF BACHELOR OF BUSINESS  
ADMINISTRATION WITH INFORMATION  
TECHNOLOGY  
(CITY CAMPUS - DAY/EVENING HARMONISED)

### ABA 202: INTRODUCTION TO FINANCE

*Date: 24<sup>th</sup> July, 2013*

*Time: 5.30 – 7.30 p.m.*

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#### INSTRUCTIONS

- ◆ Answer Question ONE and any other TWO questions.
- ◆ Show all your workings clearly.

### QUESTION ONE

- A) 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)

- B) The following is the existing capital structure of Winam Gulf 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. (5 marks)  
b) Compute W.A.C.C. (10 marks)

- (d) 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.

(3 marks)

## Appendix

Present Value Interest Factors for One Shilling Discounted at end of year n and discount rate r

n/r	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	12%	14%	15%	16%	18%	20%	22%
1	0.9901	0.9804	0.9709	0.9615	0.9524	0.9434	0.9346	0.9259	0.9174	0.9091	0.8929	0.8772	0.8696	0.8621	0.8475	0.8333	0.8197
2	0.9803	0.9612	0.9426	0.9246	0.9070	0.8900	0.8734	0.8573	0.8417	0.8264	0.7972	0.7695	0.7561	0.7432	0.7182	0.6944	0.6715
3	0.9706	0.9423	0.9151	0.8890	0.8638	0.8396	0.8163	0.7938	0.7722	0.7513	0.7118	0.6750	0.6575	0.6407	0.6086	0.5787	0.5507
4	0.9610	0.9238	0.8885	0.8548	0.8227	0.7921	0.7629	0.7350	0.7084	0.6830	0.6355	0.5921	0.5718	0.5523	0.5158	0.4823	0.4514
5	0.9515	0.9057	0.8626	0.8219	0.7835	0.7473	0.7130	0.6806	0.6499	0.6209	0.5674	0.5194	0.4972	0.4761	0.4371	0.4019	0.3706
6	0.9420	0.8880	0.8375	0.7903	0.7462	0.7050	0.6663	0.6302	0.5963	0.5645	0.5066	0.4556	0.4323	0.4104	0.3704	0.3349	0.3032
7	0.9327	0.8706	0.8131	0.7599	0.7107	0.6651	0.6227	0.5835	0.5470	0.5132	0.4523	0.3996	0.3759	0.3538	0.3139	0.2791	0.2486
8	0.9235	0.8535	0.7894	0.7307	0.6768	0.6274	0.5820	0.5403	0.5019	0.4665	0.4039	0.3506	0.3269	0.3050	0.2660	0.2326	0.2038
9	0.9143	0.8368	0.7664	0.7026	0.6446	0.5919	0.5439	0.5002	0.4604	0.4241	0.3606	0.3075	0.2843	0.2630	0.2255	0.1938	0.1676
10	0.9053	0.8203	0.7441	0.6756	0.6139	0.5584	0.5083	0.4632	0.4224	0.3855	0.3220	0.2697	0.2472	0.2267	0.1911	0.1615	0.1365
11	0.8963	0.8043	0.7224	0.6496	0.5847	0.5268	0.4751	0.4289	0.3875	0.3505	0.2875	0.2366	0.2149	0.1954	0.1619	0.1346	0.1122
12	0.8874	0.7885	0.7014	0.6246	0.5568	0.4970	0.4440	0.3971	0.3555	0.3186	0.2567	0.2076	0.1869	0.1685	0.1372	0.1122	0.0926
13	0.8787	0.7730	0.6810	0.6006	0.5303	0.4688	0.4150	0.3677	0.3262	0.2897	0.2292	0.1821	0.1625	0.1452	0.1163	0.0935	0.0754
14	0.8700	0.7579	0.6611	0.5775	0.5051	0.4423	0.3878	0.3405	0.2992	0.2633	0.2046	0.1597	0.1413	0.1252	0.0985	0.0779	0.0618
15	0.8613	0.7430	0.6419	0.5553	0.4810	0.4173	0.3624	0.3152	0.2745	0.2394	0.1827	0.1401	0.1229	0.1079	0.0835	0.0649	0.0507
16	0.8528	0.7284	0.6232	0.5339	0.4581	0.3936	0.3387	0.2919	0.2519	0.2176	0.1631	0.1229	0.1069	0.0930	0.0708	0.0541	0.0415
17	0.8444	0.7142	0.6050	0.5134	0.4363	0.3714	0.3166	0.2703	0.2311	0.1978	0.1456	0.1078	0.0929	0.0802	0.0600	0.0451	0.0346
18	0.8360	0.7002	0.5874	0.4936	0.4155	0.3503	0.2959	0.2502	0.2120	0.1799	0.1300	0.0946	0.0808	0.0691	0.0508	0.0376	0.0275
19	0.8277	0.6864	0.5703	0.4746	0.3957	0.3305	0.2765	0.2317	0.1945	0.1635	0.1161	0.0829	0.0703	0.0596	0.0431	0.0313	0.0225
20	0.8195	0.6730	0.5537	0.4564	0.3769	0.3118	0.2584	0.2145	0.1784	0.1486	0.1037	0.0728	0.0611	0.0514	0.0365	0.0261	0.0187
21	0.8114	0.6598	0.5375	0.4388	0.3589	0.2942	0.2415	0.1987	0.1637	0.1351	0.0926	0.0638	0.0531	0.0443	0.0309	0.0217	0.0154
22	0.8034	0.6468	0.5219	0.4220	0.3418	0.2775	0.2257	0.1839	0.1502	0.1228	0.0826	0.0560	0.0462	0.0382	0.0262	0.0181	0.0126
23	0.7954	0.6342	0.5067	0.4057	0.3256	0.2618	0.2109	0.1703	0.1378	0.1117	0.0738	0.0491	0.0402	0.0329	0.0222	0.0151	0.0102
24	0.7876	0.6217	0.4919	0.3901	0.3101	0.2470	0.1971	0.1577	0.1264	0.1015	0.0659	0.0431	0.0349	0.0284	0.0188	0.0126	0.0085
25	0.7798	0.6095	0.4776	0.3751	0.2953	0.2330	0.1842	0.1460	0.1160	0.0923	0.0588	0.0378	0.0304	0.0245	0.0160	0.0105	0.0065