



## MASENO UNIVERSITY

### UNIVERSITY EXAMINATIONS 2014/2015

#### SECOND YEAR FIRST SEMESTER EXAMINATIONS FOR THE DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION WITH INFORMATION TECHNOLOGY

(CITY CAMPUS DAY & EVENING)

#### ABA 202: INTRODUCTION TO FINANCE

Date: 3<sup>rd</sup> August, 2015

Time: 5.30 – 7.30 pm

#### INSTRUCTIONS:

- Answer question ONE and any other TWO questions.

- b) Which equipment should be accepted and why  
(2marks)

#### Question Three

- a) Explain the following financial ratios
- i) Sales to inventory ratio (2½mks)
  - ii) Return in Equity or Net Worth (2½mks)
- b) Discuss the non financial goals of a firm (5mks)
- c) XYZ has the following details extracted from its balance sheet and income statement. Total Net Profit after interest and taxes as obtained from the income statement is Kshs. 5,142  
Net sales is Kshs. 727,116
- Required:**  
Calculate its return on sales or profit margin and interpret your findings. (5mks)
- d) Justify the need for financial ratios giving relevant examples in each case. (5mks)

#### Question Four

- a) Describe the features of long term investment decisions. (6 marks)
- b) The following is the capital structure of XYZ Ltd as at 31/12/2002.

	Shs.M
Ordinary share capital Sh.10 par value	400
Retained earnings	200
10% preference share capital Sh.20 par value	<u>200</u>
12% debenture Sh.100 par value	<u>900</u>



**Additional information**

1. Corporate tax rate is 30%
2. Preference shares were issued 10 years ago and are still selling at par value  
MPS = Par value
3. The debenture has a 10 year maturity period. It is currently selling at Sh.90 in the market.
4. Currently the firm has been paying dividend per share of Sh.5. The DPS is expected to grow at 5% p.a. in future. The current MPS is Sh.40.

**Required**

- a) Determine the weighted average cost of capital of the firm (10 marks).
- b) Explain why market values and not book values are used to determine the weights. (2 marks)
- c) What are the weaknesses associated with WACC when used as the discounting rate, in project appraisal (2marks)

**Question Five**

- a) Explain the limitations of budgetary control . (5mks)
- b) For effective achievement of a firm's objectives, the management needs to embrace financial forecasting, Discuss. (5mks)
- c) A company is considering the following investment projects.

Project	C <sub>0</sub>	C <sub>1</sub>	C <sub>2</sub>	C <sub>3</sub>
A	-10000	+10000	-	-
B	-10000	+7500	+7500	-
C	-10000	+2000	+4000	+12000
D	-10000	+10000	+3000	+3000

- a) Rank the projects according to NPV methods assuming rate of 14%
- b) Assuming the projects are independent which project should be accepted?

**Question One**

- a) Discuss the role of a finance manager in a company (10mks)
- b) Identify the agency problems arising from the relationship between shareholders and manager citing relevant examples and remedies to the mentioned problems (10mks)
- c) Maseno Hotel has received a 5 year project proposal whole initial outlay is Kshs. 250,000 with salvage value of Kshs. 50,000. The project promises to generate the following earnings after tax

Year	1 (000)	2(000)	3(000)	4(000)	5(000)
Cash Flows Shs. 000	40	60	20	30	50

**Required:**

- i. Calculate the accounting rate of return (ARR) for the project (5mks)
- ii. Discuss the limitations of payback period as an project evaluation technique (5mks)

**Question Two**

- a) Explain the term gearing in relation to the capital structure of a limited liability company, and highlight the benefits that accrue to a firm that is highly geared. (10 marks)
- b) Equipment A has a cost of shs, 75,000 and a net cash flow of shs. 20,000 per year for six years. A substitute equipment B would cost shs.50,000 and generate a cash flow of shs.14,000 per year for six years. The required rate of return of both equipments is 11%.
  - a) Calculate the IRR and NPV of both the equipments (8marks)