



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

**FOURTH YEAR SECOND SEMESTER EXAMINATION FOR
THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION WITH INFORMATION TECHNOLOGY**

MAIN CAMPUS

ABA 434: BUSINESS FINANCE

Date: 3rd August, 2017

Time: 3.30 - 6.30pm

INSTRUCTIONS:

- Answer Question ONE and any other THREE



QUESTION ONE

a) The following information belongs to Kiboswa Traders Ltd

| Item | Beginning | Ending | Average |
|---------------------|-----------|--------|---------|
| Inventory | 5,000 | 7,000 | |
| Accounts receivable | 1,600 | 2,400 | |
| Accounts payable | 2,700 | 4,800 | |

Additional Information

- i. Credit sales for the year just ended were Kshs. 50,000
- ii. Cost of goods sold was Kshs. 30,000
- iii. Take one year to have 365 days

Required:

- i. Compute the following and interpret your findings:
- ii. Inventory turnover (2mks)
- iii. Receivable turnover (2mks)
- iv. Payable turnover (2mks)
- v. Inventory period (2mks)
- vi. Receivables period (2mks)
- vii. Payables periods (2mks)

b) Kisumu Hotel has the following book value capital structure as at 31st December, 2016

| | Source of Finance | Amount | Proportion |
|--------|--------------------|------------------|------------|
| Equity | Share Capital | 450,000 | |
| | Reserves & Surplus | 150,000 | |
| | Preference Share | 100,000 | |
| 10% | Capital Debentures | 300,000 | |
| | | 1,000,000 | |

Additional Information

- i. The current market price of the company's equity shares is Shs. 90 and the expected dividend per share next year is Shs. 4.50
- ii. The dividends are expected to grow at a constant rate of 8%
- iii. The current price of the preference share is Shs. 22.50 and has paid preferred dividend of Kshs. 1.90 which will continue into perpetuity
- iv. The company's tax rate is 30%
- v. The debentures were issued at par to be redeemed at par at maturity

Required:

Compute the component costs of capital and hence the Weighted Average Cost of Capital (WACC) (8mks)

- c) Explain the role of an underwriter to a company seeking financing through a public issue (5mks)

QUESTION THREE

The following data relates to four independent investment projects:

| Project | Investment | Annual Cashflow | Life |
|---------|------------|-----------------|------|
| A | 500,000 | 150,000 | 5 |
| B | 400,000 | 100,000 | 5 |
| C | 300,000 | 80,000 | 5 |
| D | 200,000 | 60,000 | 5 |

Assuming a 10% required rate of return and ignore tax. Rank the projects according to each of the following methods:

- i) Net Present Value (NPV) (6mks)
- ii) Internal Rate of Return (IRR) (9mks)

QUESTION FOUR

a) The following information belongs to KENTACO Co. Ltd

| Item | Beginning | Ending |
|---------------------|------------|------------|
| Inventory | Shs. 5,000 | Shs. 7,000 |
| Accounts receivable | Shs. 1,600 | Shs. 2,400 |
| Accounts payable | Shs. 2,700 | Shs. 4,800 |

Additional Information

- i) Credit sales for the year just ended were Kshs. 50,000
- ii) Cost of goods sold was Shs. 30,000

Required:

- a. How long does merchandize stay around before it is sold (2mks)
 - b. How long does KENTACO Co. Ltd take to pay its bills? (2mks)
 - c. What is KENTACO's operating cycle? (2mks)
 - d. What is the firm's cash cycle? (2mks)
- b) Explain three examples of time adjusted investment evaluation criterion citing at least their shared advantages and disadvantages (7mks)

QUESTION FIVE

- a) Lido Chemicals Ltd Company has the following book value capital structure as at 31st December, 2016

| Source of finance | Cost of finance | Amount (Shs) |
|--------------------------|-----------------|--------------|
| Ordinary share capital | 18% | 450,000 |
| Reserves and surplus | 18% | 150,000 |
| Preference share capital | 10% | 100,000 |
| Debt capital | 20% | 300,000 |

Additional Information

The company's tax rate is 35%

Required:

Compute the weighted average cost of capital based on the company's capital structure (WACC) (6mks)

- b) Explain the following terms (9mks)
- i. Financial forecasting
 - ii. Project based financing
 - iii. Franchising

QUESTION SIX

- a) Why own a cow when the milk is so cheap, all you need is milk and not the cow. Discuss the assertion with reference to lease financing (9mks)
- b) Compare and contrast hire purchase financing with and lease financing (6mks)
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ABA 434: BUSINESS FINANCE**Course Instructor: ROBBY TABITHA****Course Outline and Schedule**

| Week | Topic/Content | Duration |
|-------------|---|-----------------|
| 1 | Nature and scope of Business Finance. Sources of Business Finance | 5 hrs |
| 2 | Management of Working Capital <ul style="list-style-type: none">- Concepts of Working Capital- Stock & Stock Control- Cash Budgets- Debtors | 5 hrs |
| 3 | The Concept of Time Value of Money. Introduction to Techniques of Capital, Budgeting under certainty (NPV, IRR, PI) | 5 hrs |
| 4 | The Role of Discount Market <ul style="list-style-type: none">- Merchant Bankers- Hire Purchase Companies- Financial Institutions | 5 hrs |
| 5 | <ul style="list-style-type: none">- The Stock Exchange Market- Forex- Exchange Control | 5 hrs |
| 6 | Business Transaction <ul style="list-style-type: none">- Types and Documentation- Services of the Banks to Business Firms and Individuals | 5 hrs |
| 7 | Measuring and Business Performance <ul style="list-style-type: none">- Ratio Analysis- Use of Ratio that Measures Solvency and Liquidity, Coverage Ratios, Financial Stability ratios. | 5 hrs |
| 8 | Financial Forecasting, Capital, Budgeting & Cooperative Finance | 5 hrs |
| 9 | Revision Questions & Discussions | 5 hrs |

REFERENCES

1. Pandey Im (2010) 10th Ed. Vikas Publishers.
2. Ross Et al. (2004) Essentials of Corporate Finance Mc Graw Hill.