



RIARA SCHOOL OF BUSINESS
NURTURING INNOVATORS

SEPTEMBER – DECEMBER SEMESTER EXAMINATIONS
EXAMINATION FOR BACHELOR OF BUSINESS ADMINISTRATION AND
BACHELOR OF BUSINESS INFORMATION TECHNOLOGY
DAY PROGRAMME

RFN 201: PRINCIPLES OF FINANCE

DATE: 28TH DECEMBER 2023

TIME: 2 HOURS

GENERAL INSTRUCTIONS:

- i. Students are **NOT** permitted to write on the examination paper during reading time.
- ii. This is a closed book examination. Text book/Reference books/notes are not permitted.

SPECIAL INSTRUCTIONS

1. Write your REGISTRATION NO. Clearly on the answer booklet(s).
2. Answer Question One and ANY other TWO questions.
3. Questions in all sections should be answered in answer booklet(s)
4. PLEASE start the answer to EACH question on a NEW PAGE.
5. For the questions, write the number of the question on the answer booklet(s) in the order you answered.
6. Write on both sides of each leaf and indicate number of each question at the top of each page.
7. Write the answers in a paragraph form unless stated otherwise.
8. Marks allocated to each question are shown at the end of the question.
9. All rough work must be done on the answer booklet and crossed through!
10. Use supplementary pages only when you have exhausted those in this book.
11. Fasten the supplementary pages to the inside back cover of this booklet.

QUESTION ONE: COMPULSORY (30 MARKS)

- a) Explain any five sources of capital for businesses **(10 marks)**
- b) Describe five parts of the financial system. **(10 marks)**
- c) A company has the following capital structure.

Source	Amount (Sh.000)	After Tax Cost (%)
Ordinary share	100,000	18
Bonds	50,000	12

Required:

- (i) Calculate the weighted average cost of capital for this company. **(6 marks)**
- (ii) Outline four factors that influence the capital structure of a firm. **(4 marks)**

QUESTION TWO

- a) Outline any four users of financial statements citing their information needs. **(8 marks)**
- b) The following financial statements relate to ABC Limited:

ABC Limited

Statement of Financial Position

As at 31st December 2022

Assets	Shs.	Liabilities & Net worth	Shs.
Cash	28,500	Trade creditors	116,250
Debtors	270,000	Notes payable (9%)	54,000
Stock	<u>649,500</u>	Other current liabilities	100,500
Total current assets	948,800	Long term debt (10%)	300,000
Net fixed assets	<u>285,750</u>	Net worth	<u>663,000</u>
	<u>1,233,750</u>		<u>1,233,750</u>

Income Statement

For the year ended 31st December 2022

	Shs.
Sales	1,972,500
Less cost of sales	<u>1,368,000</u>
Gross profit	604,500
Selling and administration expenses	<u>498,750</u>
Earnings before interest and tax (EBIT)	105,750
Interest expense	<u>34,500</u>
Estimated taxation (40%)	71,250
Earnings after interest and tax	<u>28,500</u>
	<u>42,750</u>

Additional information:

ABC limited has 10,000 shares with a par value of Kshs. 10 and the market price on 31st December 2022 was KShs. 20.00 per share.

Required:

Calculate:

- i.** Return on Assets **(2 marks)**
- ii.** Return on Equity **(2 marks)**
- iii.** Debt to Equity ratio **(2 marks)**
- iv.** Times interest earned ratio **(2 marks)**
- v.** Current ratio **(2 marks)**
- vi.** Quick ratio **(2 marks)**

QUESTION THREE

- a) Shah borrowed Kshs. 2,000,000 from a bank at a simple interest of 5% per annum for 3 years. Compute the interest expense incurred and the total amount that he will pay back.

(4 marks)

- b) Kamau wants to make a one-time deposit to take care of his son's university education estimated at Kshs. 5,000,000. The son will join university five years from today. How much should he deposit if the interest rate is 10% per annum? **(4 marks)**
- c) What is the future value of a deposit of Kshs. 1,000,000 made today for 3 years if the interest rate is 15%? **(4 marks)**
- d) Analyze the four principles of finance. **(8 marks)**

QUESTION FOUR

- a) Evaluate five reasons why firms need to engage in capital expenditures **(10 marks)**
- b) The management of Kulima Limited is evaluating investment in two projects. The two projects are mutually exclusive and are expected to cost KShs. 8,000,000 and the cost of capital is 10%. The project cashflows after tax are as shown below:

Year	Project	
	Inua	Songesha
	Cash flows (KShs.)	Cash flows (KShs.)
1	2,000,000	4,000,000
2	2,200,000	3,000,000
3	2,100,000	4,800,000
4	2,240,000	800,000
5	2,760,000	0

Required:

- i) Explain the meaning of mutually exclusive projects. **(2 marks)**
- ii) Compute the NPV for each project and advise the management of Kulima Ltd on which project it should implement. **(8 marks)**

*****END*****