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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2016/2017 ACADEMIC YEAR
DIPLOMA IN BUSINESS ADMINISTRATION

DBA 015 - BUSINESS FINANCE

Date: 9th August, 2016
Time: 12.00pm –2.00pm

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Discuss the factors a business needs to put into consideration before selling goods on credit? (8 Marks)
- b) Explain the key functions of a finance manager? (6 Marks)
- c) An entrepreneur has two mutually exclusive projects to undertake on his two plots of land at Kahawa. The details of the projects are as follows;

	Project code	
	<u>A</u>	<u>B</u>
Initial capital outlay	2,400,000	1,800,000
Net cash inflows		
Year 1	300,000	740,000
Year 2	500,000	980,000
Year 3	900,000	500,000
Year 4	1,200,000	320,000
Year 5	400,000	100,000

Both projects have no residual value. The estimated cost of capital is 13%.
Evaluate the projects (indicating which project should be chosen in each case) using the;

- i) Payback period and. (4 Marks)
- ii) Internal Rate of Return. (12 Marks)

QUESTION TWO (20 MARKS)

In relation to ratios in a business setup highlight;

- a) Their importance (6 Marks)
- b) The key limitations. (4 Marks)
- c) Debentures/loans are said to be the cheapest source of finance for a business. Explain why this is the case bringing out the draw backs of shares and retained earnings. (10 Marks)

QUESTION THREE (20 MARKS)

- a) Andreas Company Ltd. currently pays a dividend of Sh.2 per share and this dividend is expected to grow at an annual rate of 15% for the first 3 years then at a rate of 10% for the next 3 years. After this it is expected to grow at a rate of 5% in perpetuity. What value would you place on the stock if an 18% rate of return were required? (7 Marks)
- b) Would your valuation change if you expected to hold the stock for only 3 years? Explain. (5 Marks)

QUESTION FOUR (20 MARKS)

- a) Compare and contrast the Net Present Value (NPV) and Accounting/Average Rate of Return (ARR) methods of capital budgeting. (8 Marks)
- b) Explain the key credit policy variables. (12 Marks)

QUESTION FIVE (20 MARKS)

- a) ABC Co Ltd wishes to borrow a 3 year loan of sh.1000000 at 9% interest rate. The bank requires that ABC repays the loan on equal end of year installments. How much will each installment be? Prepare a loan amortization schedule. (12 Marks)
- b) In inventories management, explain the meaning of the terms ABC analysis and just in time procurement. (5 Marks)
- c) Discuss the importance of the economic order quantity in stock control. (3 Marks)