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KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
FIRST YEAR, FOURTH SEMESTER EXAMINATION
FOR THE DIPLOMA IN BANKING AND FINANCE
DFI 1103: BUSINESS FINANCE

Date: 6TH DECEMBER 2023
Time: 11:30AM-1:30PM

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- Explain what you understand by the term 'agency theory' and highlight the four causes of conflicts between the government and shareholders. **(6 Marks)**
- Shareholders are owners of a business enterprise yet they don't oversee the day to day operations in their business. What can you argue is the reason for this? **(6 Marks)**
- Given the information in the table below:

Company	A (KES: '000')	B (KES: '000')
10% debt	1000	-
Equity	-	1000
Total	1000	1000

The corporate tax rate is 35% and earnings before interest and tax amount to Ksh. 400,000. If all earnings are paid out as dividends;

- Compute the amount of tax payable by each firm. **(4 Marks)**
 - Illustrate how tax is an allowable expense when a firm uses debt capital as a source of finance. **(2 Marks)**
- Highlight six constraints that managers face in their application of ratios to analyse various aspects of a firm. **(6 Marks)**
 - XYZ company holds raw materials on an average for 70 days, it gets credit from the supplier for 20 days, production process needs 18 days, finished goods are held for 40 days and 40 days of credit is extended to debtors. Calculate the total working capital cycle. **(6 Marks)**

QUESTION TWO (20 MARKS)

- Explain four significance of stock exchange markets to economic development in Kenya. **(8 Marks)**
- Carol a hairdresser, wants to set up a business for herself. In other words, she has a potential Business Start Up. Describe six factors that she will consider to arrive at the best source of capital for her business. **(6 Marks)**
- Working capital management is crucial for any business, regardless of its size or industry. Describe the importance of it. **(6 Marks)**

QUESTION THREE (20 MARKS)

- Identify and explain five features that form the basis of distinction between capital generated through sale of ordinary shares and capital generated from outside parties. **(10 Marks)**
- Define the term A central depository system. **(2 Marks)**
- A central depository system enables transfer of securities without the need for physical movement. Explain four advantages of this system in a financial market. **(8 Marks)**

QUESTION FOUR (20 MARKS)

- a. State and explain any three categories of preference Finance that you know. **(6 Marks)**
b. The following is an extract of balance sheet from the financial statements of NYANKOBA FACTORY LTD for the year ending 31st June 2024

Fixed Assets 144000

Current assets

- Stock	62300
- Debtors	34980
- Bank Balance	760

Current Liabilities

- Creditors	19030
- Bank Overdraft	4200

Financed by:

Long-Term Debt	500000
Ordinary share capital	95000
Preference share capital	105000

Additional information:

- Recorded sales revenue is sh. 18,160,000
- Cost of sales is sh. 10,400,000
- Gross profit is sh. 6,700,000
- Stock as at 1st July 2021 was sh.52,000

Use the information above to calculate the following ratios:

- i. Quick ratio **(2 Marks)**
 - ii. Stock-Turnover ratio **(3 Marks)**
 - iii. Gross Profit Margin **(2 Marks)**
 - iv. Debt ratio **(3 Marks)**
- c. Discuss four managerial functions of the finance manager. **(4 Marks)**

QUESTION FIVE (20 MARKS)

- a) Analyze conflict that might exist in agency relationship between:
- i) Shareholders and managers **(5 Marks)**
 - ii) Shareholders and government **(5 Marks)**
- b) Ratio analysis is important to various parties with a financial stake in the company. Examine the importance of financial analysis to the following parties with a financial stake in the company.
- i) creditors **(2 Marks)**
 - ii) government **(2 Marks)**
 - iii) investors **(2 Marks)**
 - iv) customers **(2 Marks)**
- c) Discuss managerial functions of Finance Manager **(2 Marks)**