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KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR
FIRST YEAR, FIRST SEMESTER EXAMINATION
FOR THE DIPLOMA OF ACCOUNTING

Date: 11th April, 2024
Time: 11.30am –1.30pm

DFI 1103: BUSINESS FINANCE

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) One of the finance functions of a finance manager is financing decision. Discuss the three things to consider in this when making this decision. (6 Marks)
- b) List different ways in which you can use the financial ratios in the business. (6 Marks)
- c) Identify six routine functions performed by junior staff in the finance departments. (6 Marks)
- d) Outline the reasons that may drive a company to raise equity finance than debt finance (6 Marks)
- e) Highlight the functions of Nairobi Securities Exchange. (6 Marks)

QUESTION TWO (20 MARKS)

- a) ‘‘Despite the large investment in the stock exchange and the various government activities, only a few companies are listed at the stock exchange of the three East African Countries’’. This was that opening remark by the guest speaker in a seminar whose theme was ‘‘Developing our capital markets’’.

Required:

- i) Explain the advantages of being listed at the stock exchange (6 Marks)
- ii) Analyse factors that may hinder companies from being listed at the stock exchange (6 Marks)
- b) Examine the benefits of the central depository system (CDS) to the investors. (8 Marks)

QUESTION THREE (20 MARKS)

- a) 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)
- b) Examine the main objectives of a company that have indirect benefits in the future growth of the business. (6 Marks)
- c) Profit maximization is the traditional objective which has been criticized due to its limitation. Explain four of these criticisms. (8 Marks)

QUESTION FOUR (20 MARKS)

- a) Analyze conflicts that might exist in agency relationship between:
- i) Shareholders and managers (5 marks)
 - ii) Shareholders and government (5 Marks)
- b) Demonstrate Practical difficulties faced by small scale enterprises in obtaining credit. (10 Marks)

QUESTION FIVE (20 MARKS)

- a) Rafiki Hardware Tools Company Limited sells plumbing fixtures. Its financial statements for the last three years are as follows:

	2021	2022	2023
	Sh'000'	Sh'000'	Sh'000'
Cash	30,000	20,000	5,000
Accounts receivable	200,000	260,000	290,000
Inventory	400,000	480,000	600,000
Net fixed assets	<u>800,000</u>	<u>800,000</u>	<u>800,000</u>
	1,430,000	1,560,000	1,695,000
Accounts payable	230,000	300,000	380,000
Accruals	200,000	210,000	225,000
Bank loan, short term	100,000	100,000	140,000
Long term debt	300,000	300,000	300,000
Common stock	100,000	100,000	100,000
Retained earnings	<u>500,000</u>	<u>550,000</u>	<u>550,000</u>
	1,430,000	1,560,000	1,695,000
Additional information:			
Sales	4,000,000	4,300,000	3,800,000
Cost of goods sold	3,200,000	3,600,000	3,300,000
Net profit	300,000	200,000	100,000

Required

For each of the three years, calculate the following ratios:

- i) Acid test ratio (3 marks)
 - ii) Average collection period, (3 marks)
 - iii) Inventory turnover (3 marks)
 - iv) Total debt/equity (3 marks)
- c) Carol a hairdresser, wants to set up a business for herself. In other words, she has a potential Business Start Up. Describe four factors that she will consider to arrive at the best source of capital for her business. (8 Marks)