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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY

UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
SECOND YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 4th December, 2023
Time: 2.30pm –4.30pm

KFI 200 - BUSINESS FINANCE

INSTRUCTIONS TO CANDIDATES

ANSWER **QUESTION ONE (COMPULSORY)** AND **ANY OTHER TWO** QUESTIONS

QUESTION ONE (30 MARKS)

a) Two neighbouring countries have chosen to organize their electricity supply industries in different ways. In country A, electricity supplies are provided by a nationalised industry. On the other hand in country B electricity supplies are provided by a number of private sector companies. Explain how the objectives of the nationalised industry in country A might differ from those of the private sector companies in country B. (6 marks)

b) K is contemplating purchasing a 3 year bond worth 40,000/= carrying a nominal coupon rate of interest of 10%. K required rate of return is 6%.Calculate the amount pay now to purchase the bond if it matures at par.
(6 marks)

c) Highlight the drawbacks for using ratios in measuring the performance of the firm.
(6 Marks)

d) Highlight the difference between profit maximization and wealth maximization objectives of the business. (6 Marks)

e) Consider companies A and B below:

Given the information in the table below:

Company	A	B
	(KES: '000')	(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;

i) Compute the amount of tax payable by each firm. (4 Marks)

ii) Illustrate how tax is an allowable expense when a firm uses debt capital as a source of finance. (2 Marks)

QUESTION TWO (20 MARKS)

a) Discuss three functions of a financial manager in a contemporary corporate set-up. (6 marks)

b) An extract from the finance statements of Nile Parch Ltd is shown below:

	Shs.
Issued share capital:	
150,000 ordinary shares of Sh.10 each fully paid	1,500,000
10% loan stock 1999	2,000,000
Share premium	1,500,000
Revenue Reserve	7,000,000
Capital employed	12,000,000

- The profits after 30% tax is Sh.600,000. However, interest charge has not been deducted.
- Ordinary dividend payout ratio is 40%.
- The current market value of ordinary shares Shs.36

Required;

i) Return on capital employed (2 marks)
ii) Earnings per share (2 marks)
iii) Price earnings ratio (2 marks)
iv) Book value per share (2 marks)
v) Market to book value per share (2 marks)

c) Discuss four action taken by shareholders which could be harmful to the government. (4 marks)

QUESTION THREE (20 MARKS)

a) Examine reasons why venture capital market is not developed in Kenya. (6 marks)

b) 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 which it is expected to grow at a rate of 5% thereafter
Required:
Calculate the value would you place on the stock if an 18% rate of return were required. (6 marks)

c) The following Information was extracted from the books of Kent Limited.

	Sh.		Sh.
Current liabilities	300,000	Land	250,000
Bank overdraft	50,000	Stock in trade	100,000
	350,000		350,000

Stock has a realisable value of Sh.80,000 and land Sh.300,000. This company is assumed to be have a share capital of 20,000 ordinary shares.
Required: Compute the value of its shares using Asset method. (8 marks)

QUESTION FOUR (20 MARKS)

a) Analyse the differences between internal and external sources of finance. (6 Marks)

b) Demonstrate the features of a sound project appraisal technique. (8 marks)

c) Discuss the advantages of leasing an asset compared to borrowing to buy an asset especially now when banks are imposing stringent measures on borrowers. (6 Marks)

QUESTION FIVE (20 MARKS)

The following financial statements relate to the ABC Company:

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

Income Statement for the year ended 31 March 2020

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

Required

a) Calculate:

i) Inventory turnover ratio; (3 marks)

ii) Times interest earned ratio; (3 marks)

iii) Total assets turnover; (3 marks)

iv) Net profit margin (3 marks)

b) Discuss the action taken by shareholders which could be harmful to the bondholders and the solutions to the conflict. (8 Marks)