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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2017/2018 ACADEMIC YEAR**  
**DIPLOMA BUSINESS INFORMATION TECHNOLOGY**  
**DFI 1103- BUSINESS FINANCE**

Date: 10<sup>th</sup> August 2018  
Time: 11.00Am -1.0Pm

**INSTRUCTIONS TO CANDIDATES**

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

**QUESTION ONE (30 MARKS)**

- a) What is the difference between the claim of a debt holder of Mvela Holdings and the claim of equity of Mvela Holdings? (4Marks)
- b) If you borrow \$100,000 at 14% interest compounded annually for 4 years. The loan is repayable in equal installments payable at the end of every year.
- i) Determine the annual payments to fully amortize the loan over the 4years. (2 Marks)
- ii) Determine the total interest and the amount of the principal (8 Marks)
- c) Explain the term “agency costs” and give any three examples of such costs. (6 Marks)
- d) Briefly explain the importance of capital budgeting in a business organization. (4 Marks)
- e) Explain the determinants of Working Capital Requirements of a firm (6Marks)

**QUESTION TWO (20 MARKS)**

- a) The following information has been extracted from the published accounts of XXX Limited.

	Shs
Net profit after tax and interest	990,000
Less: dividends for the period	<u>740,000</u>
Transfer to reserves	250,000

Accumulated profit brought forward	<u>810,000</u>
Profit carried forward	<u>1,060,000</u>
Share capital (Sh.10 par value)	<u>Sh.8, 000,000</u>
Market price per share now	<u>Shs12</u>

**Required;** Calculate for XXX Limited the following ratios and indicate the importance of each to Mr. Malo, a Shareholder:

- i) Earnings per share. (3 Marks)
- ii) Price earnings ratio (3 Marks)
- iii) Dividend yield (3Marks)
- iv) Dividend cover (3 Marks)
- b) Discuss the Uses/Application of financial Ratios (8 Marks)

**QUESTION THREE (20 MARKS)**

- a) Preference shares are often considered to be hybrid securities since they have features similar to both common shares and debt finance. Explain how they are similar to;
  - i) Common shares (8 Marks)
  - ii) Debt finance (8 Marks)
- b) Assume that you are 20 years old and have accumulated Kshs 50,000 in your savings account. You can add Kshs 1000 at the end of each month to your account which pays an annual interest of 6% compounded monthly. What amount will you receive after 30years? (4 Marks)

**QUESTION FOUR (20 MARKS)**

- a) Company A is considering investing in a project which has a three year life. The project would involve an initial investment of Sh.20 million. The finance manager has come up with expected probabilities for various possible economic conditions as follows:

Year	Economic Conditions	Sh. '000'	
		Net cash flows	Probability
0		(20,000)	1.0
1	High growth	10,000	0.2
	Average growth	6,000	0.7
	No growth	2,000	0.1
2	High growth	12,000	0.3
	Average growth	8,000	0.5
	No growth	4,000	0.2
3	High growth	16,000	0.4
	Average growth	12,000	0.3
	No growth	6,000	0.3

**Required:**

Assuming a discount rate of 15% should company A invest in the project? (12 Marks)

b) Explain the main Features of an ideal investment appraisal method (8Marks)

**QUESTION FIVE (20 MARKS)**

a) Differentiate the following terms

i) An “operating lease” and a “finance lease”? (3 Marks)

ii) Shareholder and Stakeholder (2 Marks)

iii) Profit maximization and shareholders wealth maximization (3Marks)

b) Mensi Ltd is a quoted company which is financed by 10,000,000 ordinary shares and shs 50,000,000 of irredeemable 8% debentures. The market value of the shares is sh 20 each and annual dividend of sh 4 per share is expected to be paid in perpetuity

**Required;** Compute the weighted average cost of capital (WACC) of the company. (6Marks)

c) Explain any five services these financial intermediaries provide. (6Marks)