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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR
FIRST SEMESTER EXAMINATION
FOR DIPLOMA

DFI 1103: BUSINESS FINANCE

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE: (30 MARKS)

- Explain what you understand by the term 'net-worth' and highlight the significance of shareholders' wealth maximization goal by a business. **(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)**

- d. Highlight six constraints that managers face in their application of ratios to analyse various aspects of a firm. **(6 Marks)**
- e. Define who investment bankers are and state five functions they play in financial markets. **(6 Marks)**

QUESTION TWO: (20 MARKS)

- a. Explain the significance of stock exchange markets to economic development in Kenya. **(10 Marks)**
- b. Carol a hairdresser, wants to set up a business for herself. In other words, she has a potential Business Start Up. Describe five factors that she will consider to arrive at the best source of capital for her business. **(10 Marks)**

QUESTION THREE: (20 MARKS)

- a. Identify and explain five features that form the basis of distinction between capital generated through sale of ordinary shares and capital generated through preferred shares. **(10 Marks)**
- b. A central depository system enables transfer of securities without the need for physical movement. Explain five special functions of this system in a financial market. **(10 Marks)**

QUESTION FOUR: (20 MARKS)

- a. State and explain any three categories of Debenture 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 2022.

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. Characterise 'Business Finance' in four different ways. **(4 Marks)**

QUESTION FIVE: (20 MARKS)

- a. Describe the agency relationship between bondholders and shareholders and explain factors bondholders would consider before giving debt capital to shareholders. **(10 Marks)**
- b. Ratio analysis is important to various parties with a financial stake in the company. Identify five parties and explain what each party is interested in that would make him/her use ratios. **(10 Marks)**