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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY

UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
THIRD YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF EDUCATION (ARTS)

Date: 10th August, 2023
Time: 2.30pm –4.30pm

KFI 2300 - BUSINESS FINANCE

INSTRUCTIONS TO CANDIDATES

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

QUESTION ONE (30 MARKS)

a) Finance may be defined as the art and science of managing money. It includes financial service and financial instruments. Finance also is referred as the provision of money at the time when it is needed. Finance functions is the procurement of funds and their effective utilization in business concerns. The concept of finance includes capital, funds, money and amount. But each word is having unique meaning. Studying and understanding the concept of finance become an important part of the business concern. Discuss the relationship between business finance and financial management. (5 Marks)

b) K is contemplating purchasing a 3year 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 five drawbacks for using ratios in measuring the performance of the firm. (5 Marks)

d) Distinguish between;
   i) Capital structure and financial structure. (3 Marks)
   ii) Business risk and financial risk (3 Marks)

e) The following is an extract of balance sheet from the financial statements of NYANKOBA FACTORY LTD for the year ending 31st June 2022.

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 june 2022

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

Required;

Calculate:

i) Inventory turnover ratio; (2 Marks)

ii) Times interest earned ratio; (2 Marks)

iii) Total assets turnover; (2 Marks)

iv) Net profit margin (2 Marks)

(Note: Round your ratios to one decimal place)

QUESTION TWO (20 MARKS)

a) Discuss four functions of a financial manager in a contemporary corporate set-up. (8 Marks)

b) Explain why Valuation of ordinary shares is more complicated than valuation of bonds and preference shares. (6 Marks)

c) 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;

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 THREE (20 MARKS)

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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. (8 Marks)

b) Discuss the advantages of Islamic financing. (6 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)

a) 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	1,500,000
paid	2,000,000
10% loan stock 1999	1,500,000
Share premium	7,000,000
Revenue Reserve	12,000,000
Capital employed	

- 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)

b) Discuss the action taken by shareholders which could be harmful to the bondholders and the solutions to the conflict. (10 Marks)