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**KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
FIRST YEAR, FIRST SEMESTER EXAMINATION
FOR THE DIPLOMA IN BUSINESS INFORMATION TECHNOLOGY
DBT 1001 – BUSINESS FINANCE**

Date: 09TH AUGUST 2023
Time: 11:30AM – 1:30PM

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Discuss the difference between shareholder wealth maximization and profit maximization. (6 Marks)
- b) 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)
- c) Given the information in the table below:

Company	A (KES: '000')	B (KES: '000')
10% debt	3000	-
Equity	-	3000
Total	3000	3000

The corporate tax rate is 35% and earnings before interest and tax amount to Ksh. 600,000. 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)
- 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) "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 out capital market".

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) 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. (8 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) Explain the term central depository system as used in stock market. (2 Marks)
- c) A central depository system enables transfer of securities without the need for physical movement. Explain four special functions of this system in a financial market. (8 Marks)

QUESTION FOUR (20 MARKS)

- a) State and explain any three categories of preference share capital 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 that exist between creditors and shareholders. (5 Marks)
- b) In reference of the above explain the solution that arises among them. (5 Marks)
- c) 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)

