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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR
SECOND YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 12th April, 2024
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)

TATA MANUFACTURING COMPANY

- a) Tata Manufacturing Company is a medium-sized manufacturing firm specializing in automotive components. With over a decade of experience, the company has established itself as a significant player in its industry. Recently, Tata has set ambitious goals to improve its profit margins by 20% over the next two years through operational optimization and cost control. Additionally, the company intends to undertake a societal activity involving tree planting. The finance manager of Tata Manufacturing Company is exploring financing options to support the company's activities. Two primary considerations are being evaluated: obtaining financing from a nearby ABSA bank and issuing shares to the public. However, Tata Manufacturing Company faces internal challenges and ethical dilemmas. Employees have been observed reporting to work late, requesting salary increases, and engaging in low-return projects. Moreover, the company has failed to fulfill its tax obligations to the government and declined an investment opportunity in Moyale, which could have benefited the community. Amidst these challenges, a shareholder has inquired about the company's expenses and whether its profits are sufficient to cover them. The finance manager responded using a financial ratio, although the specific ratio was not disclosed.

In reference of Tata company:

- i) Tata Manufacturing Company has set ambitious goals to improve its profit margins by 20% over the next two years. Discuss two strategies the company can employ to achieve this objective. (4 marks)
- ii) Explain one ethical dilemma faced by Tata Manufacturing Company regarding its employees' behavior and provide recommendations on how the company can address this issue. (2 marks)
- iii) Identify two potential sources of financing that the finance manager of Tata Manufacturing Company is considering to support the company's activities. (4 marks)
- iv) Discuss one consequence of Tata Manufacturing Company's failure to fulfill its tax obligations to the government and propose measures the company can take to rectify this situation. (2 marks)

- v) A shareholder of Tata Manufacturing Company has inquired about the company's expenses and whether its profits can cover them. Describe one financial ratio that the finance manager could use to address this inquiry and explain how it can provide insights into the company's financial performance. (2 marks)
- b) Highlight four drawbacks for using ratios in measuring the performance of the firm. (4 Marks)
- c) Highlight the difference between profit maximization and wealth maximization objectives of the business. (6 Marks)
- d) Consider companies A and B below:
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 30% 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 routine 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	<u>7,000,000</u>
Capital employed	<u>12,000,000</u>

- 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 you would place on the stock if an 18% rate of return were required.

(6 marks)

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

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

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) 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) Discuss four advantages of leasing an asset compared to borrowing to buy an asset especially now when banks are imposing stringent measures on borrowers. (8 marks)

QUESTION FIVE (20 MARKS)

- a) 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	<u>649,500</u>	Other current liabilities	100,500
Total current assets	948,800	Long term debt (10%)	300,000
Net fixed assets	<u>285,750</u>	Net worth	<u>663,000</u>
	<u>1,233,750</u>		<u>1,233,750</u>

Income Statement for the year ended 31 March 2020

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

Required;

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