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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: 13TH APRIL 2022
Time: 11:30AM – 1:30PM

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Starting a small business may sound exciting as you can be your own boss and spend your time and energy on something you are passionate about. First and foremost, you need to have a strong idea. Once the business plan is in place, it is now time to think about how to fund the small business. Consider first how much funding is needed to get the company's feet off the ground and what future funds it will need. There are multiple ways to approach; if you can, self-funding asking from family and friends to each donate a small amount of money and this will help you avoid having to take out loans or a final option would be to go to investors, share your business plan with them and hope they will be convinced that your business is going to be a success and invest in it.
- i) Discuss the factors of consideration when selecting source of funds. (6 Marks)
- ii) Outline the long term sources of funds (6 Marks)
- iii) Determine the advantages equity finance over debt finance. (6 Marks)
- b) Enumerate the weaknesses of payback period. (6 Marks)
- c) In financial analysis, ratio is used as an index of yardstick for evaluating the financial position and performance of the firm. However, they are subject to certain limitations. Discuss (6 Marks)

QUESTION TWO (20 MARKS)

- a) Explain the main differences between Preference and Equity Finance. (8 Marks)
- b) Define the term debenture and explain any 3 classification of debentures (8 Marks)
- c) What are some of disadvantages of using debt financing? (4 Marks)

QUESTION THREE (20 MARKS)

- a) Discuss the importance Capital budgeting. (6 Marks)
- b) Enumerate the features of a good appraisal technique. (4 Marks)
- c) Aqua ltd has a proposal for a project whose cost is Sh.50million and has an economic useful life of 5 years. It has a nil residual value. The earnings before depreciation and tax expected from the project are as follows:

Year	Earnings before depreciation and tax
	Sh.'000'
1	12000
2	15000
3	18000
4	20000
5	22000

The corporate tax rate is 30% and depreciation is on straight line basis

Required: Calculate

- i) Payback period (4 Marks)
- ii) The accounting rate of return (ARR) (6 Marks)

QUESTION FOUR (20 MARKS)

a) The following information has been extracted from the published accounts of Pesa 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 reserves brought forward	<u>810,000</u>
Reserves 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>12%</u>

Required; Calculate for Pesa Limited the following ratios and indicate the importance of each to Miss Hisa, a Shareholder:

- i) Earnings per share. (3 Marks)
 - ii) Price earnings ratio (3 Marks)
 - iii) Dividend yield (3 Marks)
 - iv) Dividend covers (3 Marks)
- b) Discuss the Following classes of ratios
- i) Liquidity ratios.
 - ii) Leverage or gearing ratios.
 - iii) Activity ratios.
 - iv) Profitability ratios. (8 Marks)

QUESTION FIVE (20 MARKS)

- a) Discuss the incentives offered by the government to induce companies to go public. (8 Marks)
- b) One of the important sustainability requisite for the accelerated development of an economy is the existence of a dynamic financial market. Discuss ways that the financial market helps the economy. (6Marks)
- c) Enumerate the rules for floatation of new shares on the Nairobi stock exchange. (6 Marks)