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**KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR**  
**FIRST YEAR, FIRST SEMESTER EXAMINATION**  
**FOR THE DIPLOMA IN ACCOUNTING**

Date: 7<sup>th</sup> August, 2024  
Time: 11.30am – 1.30pm

**DFI 1103 BUSINESS FINANCE**

**INSTRUCTIONS TO CANDIDATES**

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

**QUESTION ONE (30 MARKS)**

- a) Highlight the various measures that would minimize agency problems between the owners and the management. (6 marks)
- b) Rafiki Hardware Tools Company Limited sells plumbing fixtures. Its financial statements for the last three years are as follows:

	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<b>Sh.'000'</b>	<b>Sh.'000'</b>	<b>Sh.'000'</b>
Cash	30,000	20,000	5,000
Accounts receivable	200,000	260,000	290,000
Inventory	400,000	480,000	600,000
Net fixed assets	<u>800,000</u>	<u>800,000</u>	<u>800,000</u>
	1,430,000	1,560,000	1,695,000
Accounts payable	230,000	300,000	380,000
Accruals	200,000	210,000	225,000
Bank loan, short term	100,000	100,000	140,000
Long term debt	300,000	300,000	300,000
Common stock	100,000	100,000	100,000
Retained earnings	<u>500,000</u>	<u>550,000</u>	<u>550,000</u>
	1,430,000	1,560,000	1,695,000
Additional information:			
Sales	4,000,000	4,300,000	3,800,000
Cost of goods sold	3,200,000	3,600,000	3,300,000
Net profit	300,000	200,000	100,000

**Required:**

For each of the three years, calculate the following ratios:

Acid test ratio,	(2 marks)
Average collection period,	(2 marks)
inventory turnover,	(2 marks)
Total debt/equity,	(2 marks)
Net profit margin	(2 marks)
return on assets.	(2 marks)

- c) Explain three factors that should be taken into account by a businessman in making the choice between financing by short-term and long-term sources. (6 marks)
- d) Examine the relative merits of leasing versus hire purchase as a means of acquiring capital assets. (6 marks)

**QUESTION TWO (20 MARKS)**

- a) You are given the following financial information for Kate Ltd for the year ended 31<sup>st</sup> Dec 2020

Item	beginning “000”	ending “000”
Inventory	17340	15960
Accounts receivable	42240	37250
Accounts payable	35510	27370
Net sales	120000	
Cost of goods sold	92000	

**Required:**

- The operating and cash conversion cycles assuming that the year has 360 days (6 marks)
- b) Explain the term “agency costs” and give any three examples of such costs. (6 marks)
- c) Briefly describe the benefits of the Central Depository System (CDS) to the following stakeholders.
- i) Government; (3 marks)
  - ii) Capital Markets Authority and Nairobi Stock Exchange; (3marks)
  - iii) Investors. (2 marks)

**QUESTION THREE (20 MARKS)**

- a) Examine the functions of the financial manager of an organization (6 marks)
- b) From the point of view of a company’s financial manager, outline the merits and demerits, to the company, of issuing preference shares as a means of raising capital. (8 marks)
- c) Explain three factors that may underlie the low rate of listing of companies in a stock exchange you are familiar with. (6 marks)

**QUESTION FOUR (20 MARKS)**

- a) Explain how the Capital Market Authority can ensure:
  - i) Faster growth and development of the Nairobi Stock Exchange or Stock Exchange in your country. (6 marks)
  - ii) Development of other stock exchanges in Kenya. (4 marks)
- b) Outline four limitations of the use of ratios as a basis of financial analysis. (4 marks)
- c) Briefly explain the difference between a broker and a dealer in the stock market. (6 marks)

**QUESTION FIVE (20 MARKS)**

- a) Explain the role of financial intermediaries in the economy (6 marks)
- b) Enumerate ways of reducing working capital cycle (4 marks)
- c) Explain the difference between wealth maximization and profit maximization (4 marks)
- d) Highlight the relationship between business finance and financial management (6 marks)