



**Kasarani Campus
Off Thika Road
Tel. 2042692 / 3
P. O. Box 49274, 00100
NAIROBI**

**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR
FIRST SEMESTER EXAMINATION
FOR DIPLOMA**

DFI 1103: BUSINESS FINANCE

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE

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. (6marks)

ii) Outline the long term sources of funds (6marks)

iii) Determine the advantages equity finance over debt finance. (6marks)

b) Enumerate the weaknesses of payback period. (6marks)

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 (6marks)

QUESTION TWO

a) Explain the main differences between Preference and Equity Finance. (8marks)

b) Define the term debenture and explain any 3 classification of debentures (8marks)

c) What are some of disadvantages of using debt financing? (4marks)

QUESTION THREE

a) Discuss the importance Capital budgeting. (6marks)

b) Enumerate the features of a good appraisal technique. (4marks)

b) 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 (4marks)

ii. The accounting rate of return (ARR) (6marks)

QUESTION FOUR

a) State and explain any Four categories of Debenture Finance that you .

(8 Marks)

a. 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 | (3 Marks) |
| ii. | Stock-Turnover ratio | (3 Marks) |
| iii. | Gross Profit Margin | (3 Marks) |
| iv. | Debt ratio | (3 Marks) |

QUESTION FIVE

- a) Discuss the incentives offered by the government to induce companies to go public. (8marks)
- 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. (6marks)