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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR**  
**FIRST YEAR, FOURTH SEMESTER END OF SEMESTER EXAMINATION**  
**DIPLOMA IN PROCUREMENT AND SUPPLIES MANAGEMENT**  
**DFI 103-BUSINESS FINANCE**

**Date: 4<sup>th</sup> August 2022**  
**Time: 8.30am-10.30am**

**INSTRUCTIONS TO CANDIDATES**

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

**QUESTION ONE (30 MARKS)**

a) KK Ltd has six projects available for investment as follows:

Project	Initial cost Sh.'M'	NPV @ 15% cost of capital
1	60	21
2	15	9
3	20	9
4	55	15
5	30	20
6	40	-2

The firm has Sh.100 M available for investment.

Identify which projects should be undertaken Using;

- i) P. I ranking (8marks)
- ii) NPV ranking (8marks)
- iii) comment on your answer. (2marks)

b) what are some of the assumptions of economic order quantity (EOQ)? (8marks)

c) Explain the main financial goals of a business entity (4marks)

## **QUESTION TWO (20 MARKS)**

a) In evaluating investment decisions, cash flows are considered to be more relevant than profitability associated with the project. Explain why this is the case. (6 marks)

b) What are the underlying assumptions of Baumol Model? (4marks)

c) PKG Ltd. maintains a minimum cash balance of Sh.500,000. The deviation of the company's daily cash changes is Sh.200,000. The annual interest rate is 14%. The transaction cost of buying or selling securities is Sh.150 per transaction.

Required: Using the Miller-Orr cash management model, determine the following:

- (i) Upper cash limit ( 4 marks)
- (ii) Average cash balance (4 marks)
- (iii) The return point. ( 2 marks)

## **QUESTION THREE (20 MARKS)**

a) Rodgers Masengo just closed a Sh.2, 000,000 business loan that is to be repaid in 3 equal end-of year repayments. The interest rate on the loan is 13%p.a.

i) Determine the equal end of the year repayments (4marks)

ii) Prepare an amortization schedule for the loan showing total interest. (6marks)

b) what are some of the weakness associated with the following traditional methods

i) Payback period (PBP) (4marks)

ii) Accounting rate of return (ARR) (6marks)

## **QUESTION FOUR 20 MARKS)**

A company requires 2000 units of items costing shs. 50 each. These forms have a lead time of 7 days. Each order costs shs. 50 to prepare and process and the holding cost is shs. 15 per unit p a for storage costs of 10% of the purchase price. Management has set up a safety stock level of 10 units and these units are on hand at the beginning of the year. This is the minimum or butter stock which acts as a cushion against any increase in usage or delay in deliver at time.

**Required:**

i) How many units should be ordered each time an order is made (4marks)

ii) What is the reorder level? (3marks)

iii) Determine total relevant costs. (4marks)

iv)What is the inventory turnover? (3marks)

b)List and explain the different applications of time value of money. (6marks)

**QUESTION FIVE (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	1,060,000
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. (3marks)

ii) Price earnings ratio (3 marks)

iii) Dividend yield (3marks)

iv) Dividend covers (3 marks)

b) Explain the various parties interested with the financial ratios (8marks)