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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR
SECOND YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 28th July, 2022
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)

- a) Mwalimu jua kali company wishes to raise additional finance from there internal sources and the external sources and the finance manager was required to advice the firm on the best source. In in response he said there is no good or bad source since each source is of benefit to the firm. He said it only depend on the amount they require and the cost involved.
- i) Discuss six reasons Why It May Be Difficult For Small Companies To Raise Debt Finance In Kenya (Say Jua Kali Companies) (6marks)
- ii) Differentiate between internal sources of finance and the external sources of finance. (6 marks)
- b) Discuss three measures used in ratio analysis. (6 marks)
- c) As a result of the purchase of an asset, the income stream will increase by £1,000 per annum for 25 years. Assuming a discount rate of 20%, compute the maximum price to be paid for this asset ignoring taxation. (6 marks)
- d) Discuss six reasons Why It May Be Difficult For Small Companies To Raise Debt Finance In Kenya (Say Jua Kali Companies) (6marks)
- e) Describe four main objectives, which conflict and at the same time overlap.(6 marks)
- f) ABC Company Ltd books:
- | | |
|----------------------------------------------|---------|
| 10,000, Shs.20 ordinary share capital | Shs. |
| 10,000, Shs.10 8% preference share capital | 200,000 |
| 5,000, Shs.100 12% debentures | 100,000 |
| The above debentures are due for conversion: | 500,000 |
- Required
- i) Compute the conversion price. (2 marks)
- ii) Compute the conversion ratio. (2 marks)
- iii) Compute new capital structure. (2 marks)

QUESTION TWO (20MARKS)

- a) Discuss the functions of a financial manager in a contemporary corporate set-up. (10 marks)
- b) Within a business finance context, discuss the problems that might exist in the relationships (sometimes referred to as agency relationships) between Shareholders and managers and Shareholders and creditors especially due to the hard times experienced by those parties due to declining economy. (10 marks)

QUESTION THREE(20MARKS)

- a) Discuss the source of capital you will advice a company to use during the current economic conditions when the cost of living high. (10 marks)
- b) Discuss the advantages of leasing an asset compared to borrowing to buy an asset especially now when banks are imposing stringent measures on borrowers. (10 marks)

QUESTION FOUR (20 MARKS)

- a) Ushindi Limited presented the following financial statements on 30 June 2020.
Income statement for the year ended 30 June 2019

	Sh.
Sales (all on credit)	<u>4,000,000</u>
Operating profit	440,000
Less: debenture interest	<u>40,000</u>
	400,000
Corporation tax	<u>176,000</u>
	224,000
Ordinary dividends proposed	<u>107,200</u>
Retained profit	<u>116,800</u>

Statement of Financial Position as at 30 June 2020

	Shs.	Shs.	Shs.
Fixed assets:			
Freehold property (Net book value)			480,000
Plant and machinery (Net book value)			800,000
Motor vehicle (Net book value)			200,000
Furniture and fittings			<u>200,000</u>
			1,680,000
Current assets:			
Stock		1,000,000	
Debtors		400,000	
Investments		<u>120,000</u>	
		1,520,000	
Current liabilities			
Trade creditors	238,400		
Bank overdraft	878,400		
Corporation tax	176,000		
Dividend payable	<u>107,200</u>	<u>(1,400,000)</u>	<u>120,000</u>
			<u>1,800,000</u>

Financed by:			
Authorized share capital: 800,000 Sh.1 ordinary shares			<u>800,000</u>
Issued and fully paid: 400,000 Sh.1 ordinary shares			400,000
Capital reserve			200,000
Revenue reserve			800,000
Loan capital: 400,000 Sh.1 10% debentures			<u>400,000</u>
			<u>1,800,000</u>

Additional information:

An analysis of the industry in which the company operates reveals the following

Industrial averages:

Current ratio 1.5:1

Quick ratio 0.8:1

The purchases for the year were Sh.2, 160,000 while the cost of sales was Sh.3, 000,000.

The market price of the company's shares as at 30 June 2020 was Sh.5.

Required:

Compute the following ratios for Ushindi Limited:

- i) Return on capital employed (2 marks)
- ii) Turnover of capital (2 marks)
- iii) Operating expenses ratio. (2 marks)
- iv) Accounts receivable turnover in days (2 marks)
- v) Dividend yield. (2 marks)
- vi) Price earnings ratio (2 marks)
- vii) Market value to book value ratio (2 marks)
- viii) Current ratio (2 marks)
- b) Compare the company's liquidity performance with that of the industry. (4 marks)

QUESTION FIVE (20MARKS)

- a) Define agency relationship from the context of a public limited company and briefly explain how this arises. (6 marks)
- b) Company XYZ is expected to generate post tax earnings of Sh.200,000 per annum and companies in the same trade will generally have a P/E ratio of eight (8). On account of company XYZ limited size, a ratio of six (6) is considered more appropriate. The issued share capital is 1,000,000 ordinary shares of Sh.50 each
Calculate;
 - i) the value of the shares (4 marks)
 - ii) the value of the business (4 marks)
- c) 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%. What should he be willing to pay now to purchase the bond if it matures at par? (6 marks)