



Kasarani Campus
Off Thika Road
Tel. 2042692 / 3
P. O. Box 49274, 00100
NAIROBI
Westlands Campus
Pamstech House
Woodvale Grove
Tel. 4442212
Fax: 4444175

KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR
SECOND YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: **6th December, 2024**
Time: **2.30pm – 4.30pm**

KFI 2200 - BUSINESS FINANCE

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

CYCLE AUTOMOTIVE COMPANY

Cycle Automotive Company is a medium-sized manufacturing firm specializing in automotive components. With over a decade of experience, the company has established itself as a significant player in its industry. Recently, Cycle has set ambitious goals to improve its profit margins by 20% over the next two years through operational optimization and cost control. Additionally, the company intends to undertake a societal activity involving tree planting. The finance manager of Cycle automotive Company is exploring financing options to support the company's activities. Two primary considerations are being evaluated: obtaining financing from a nearby ABSA bank and issuing shares to the public. However, Tata Manufacturing Company faces internal challenges and ethical dilemmas. Employees have been observed reporting to work late, requesting salary increases, and engaging in low-return projects. Moreover, the company has failed to fulfill its tax obligations to the government and declined an investment opportunity in Moyale, which could have benefited the community. Amidst these challenges, a shareholder has inquired about the company's expenses and whether its profits are sufficient to cover them. The finance manager responded using a financial ratio, although the specific ratio was not disclosed. The company is also considering to invest in two sources i.e. equity and debt with an equal amount of ksh 1M each.

In reference of Tata company:

- Cycle automotive company has set ambitious goals to improve its profit margins by 20% over the next two years. Discuss two strategies the company can employ to achieve this objective.
(4 marks)
- Explain three ethical dilemmas faced by cycle automotive company regarding its employees' behaviours and provide recommendations on how the company can address this issue.
(6 marks)
- Calculate the amount of tax to be paid from equity and debt financing if the company attracts 10% interest and 30% tax with earnings before interest and tax of sh 400,000.
(6 marks)

- d) Discuss two consequence of cycle automotive company failure to fulfil its tax obligations to the government and propose measures the company can take to rectify this situation. (4 marks)
- e) A shareholder of cycle automotive company has inquired about the company's expenses and whether its profits can cover them. Describe three financial ratio that the finance manager could use to address this inquiry and explain how it can provide insights into the company's financial performance. (6 marks)
- f) Highlight the difference between profit maximization and wealth maximization objectives of the business. (4 Marks)

QUESTION TWO (20 MARKS)

The Executive Director of Pesa Ltd has circulated the following information as part of board paper:

Pesa Ltd. Financial Performance for the year ended 31 March:

	2022	2023
i) Return on investment	12%	10%
ii) Gross profit on sales	25%	20%
iii) Number of days credit given	30 days	45 days
iv) Administrative cost of sales	7%	10%

Required;

- a) Brief report on each of the above 4 ratios indicating the reservation, if any, you may have or judging them as improvement in performance. (8 marks)
- b) Tajiri Ltd has sales of Sh.20,000,000 in 2022. Beginning and closing stock was Sh.800,000 and Sh.2,200,000 respectively. G.P. margin is usually 25% of sales.

Required;

- i) Stock turnover ratio. (2 marks)
- ii) Number of days stock held. (2 marks)
- c) Discuss four action taken by shareholders which could be harmful to the government. (4 marks)
- d) Islamic finance rests on the application of Islamic law, or Shariah, whose primary sources are the Qur'an and the sayings and practice of the Prophet Muhammad. Shariah, and very much in the context of Islamic finance, emphasizes justice and partnership. In this finance there are various products available. Discuss four basic products available in Islamic financing. (4 marks)

QUESTION THREE (20 MARKS)

- a) Examine reasons why venture capital market is not developed in Kenya. (8 marks)
- b) Dividend is expected to grow at an annual rate of 15% for the first 3 years then at a rate of 10% for the next 3 years after which it is expected to grow at a rate of 5% thereafter

Required:

Calculate the value would you place on the stock if an 18% rate of return were required.

(6 marks)

- c) The following Information was extracted from the books of Kent Limited.

	Sh.		Sh.
Current liabilities	300,000	Land	250,000
Bank overdraft	<u>50,000</u>	Stock in trade	<u>100,000</u>
	<u>350,000</u>		<u>350,000</u>

Stock has a realisable value of Sh.80,000 and land Sh.300,000. This company is assumed to be have a share capital of 20,000 ordinary shares.

Required:

Compute the value of its shares using Asset method.

(6 marks)

QUESTION FOUR (20 MARKS)

- a) Analyze the differences between internal and external sources of finance . (6 Marks)
- b) 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%. Calculate the amount pay now to purchase the bond if it matures at par. (6 marks)
- c) Discuss four advantages of leasing an asset compared to borrowing to buy an asset especially now when banks are imposing stringent measures on borrowers. (8 Marks)

QUESTION FIVE (20 MARKS)

- a) Kiriri Company Limited sells Agricultural products. Its financial statements for the last three years are as follows:

	2020	2021	2022
	Sh.'000'	Sh.'000'	Sh.'000'
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:

- i) Stock holding period, (3 marks)
 - ii) Total debt/equity, (3 marks)
 - iii) Return on assets. (3 marks)
- b) Describe three application of ratios. (6 marks)
- c) Discuss the routine functions delegated by the finance manager to junior staff in a contemporary set up. (5 marks)