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

Date: 5th December, 2024
Time: 8.30am –10.30am

DFI 1103 – BUSINESS FINANCE

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Explain four main differences between business finance and financial management. **(8 Marks)**
- b) Working capital management is crucial for any business, regardless of its size or industry.
Identify six importance of effectively managing working capital of any organization. **(6 Marks)**
- c) Different financing sources may be more appropriate for different purposes. Explain six factors that affect the choice of source of finance for an organization **(6 Marks)**
- d) Profit maximization is the traditional objective which has been criticized due to its limitation.
Explain three of these limitations. **(6 Marks)**
- e) Identify and explain two major types of stock exchange markets **(4 Marks)**

QUESTION TWO (20 MARKS)

- a) Muindi Mweusi supermarket extracted the following financial information for the year 2023.

Assets	Shs.	Liabilities & Net worth	Shs.
Cash	28,500	Trade creditors	116,250
Debtors	270,000	Notes payable (9%)	54,000
Stock	<u>649,500</u>	Other current liabilities	100,500
Total current assets	948,800		300,000
Net fixed assets	<u>285,750</u>	Long term debt (10%)	<u>663,000</u>
	<u>1,233,750</u>	Net worth	<u>1,233,750</u>

Income Statement for the year ended 31 December 2023

	Shs.
Sales	1,972,500
Less cost of sales	<u>1,368,000</u>
Gross profit	604,500
Selling and administration expenses	<u>498,750</u>
Earning before interest and tax	<u>34,500</u>
Interest expense	<u>28,500</u>
	<u>42,750</u>
Estimated taxation (40%)	
Earnings after interest and tax	

(Note: Round your ratios to one decimal place)

Required:

Calculate

- i) Stock/Inventory Turnover (2 Marks)
- ii) Stock holding period (2 Marks)
- iii) Total Asset Turnover (2 Marks)
- iv) Debtors collection period (2 Marks)
- v) Creditors/accounts payable turnover (2 Marks)
- b) Agency problem arises due to the divergence or divorce of interest between the principal and the agent. Identify Five major conflicts between shareholders and the management and how to resolve them (10 Marks)

QUESTION THREE (20 MARKS)

- a) Highlight two managerial functions and two routine functions of a firm (4 Marks)
- b) Outline the reasons that may drive a company to raise equity finance than debt finance (6 Marks)
- c) Small businesses face a lot of challenges when seeking for finance to expand their business. Discuss five major challenges they face (10 Marks)

QUESTION FOUR (20 MARKS)

- a) Highlight six activities or action which will lead to unethical business practice. **(6 Marks)**
- b) Describe four main components of working capital management **(8 Marks)**
- c) XYZ company holds raw materials on an average for 70days, it gets credit from the supplier for 20 days, production process needs 18 days, finished goods are held for 40 days and 40 days of credit is extended to debtors. Calculate the total working capital cycle. **(6 Marks)**

QUESTION FIVE (20 MARKS)

- a.) ‘‘Despite the large investment in the stock exchange and the various government activities, only a few companies are listed at the stock exchange of the three East African Countries’’. This was that opening remark by the guest speaker in a seminar whose theme was ‘‘Developing out capital market’’.

Required:

- (i) Explain the advantages of being listed at the stock exchange **(6 Marks)**
- (ii) Analyse factors that may hinder companies from being listed at the stock exchange **(6 Marks)**
- b) Examine the benefits of central depository system (CDS) to the investors. **(8 Marks)**

