



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, 2022/2023 ACADEMIC YEAR**  
**FIRST YEAR, FIRST SEMESTER EXAMINATION**  
**FOR THE DIPLOMA IN PROCUREMENT AND SUPPLIES MANAGEMENT**  
**DFI 1103 – BUSINESS FINANCE**

Date: 20<sup>th</sup> April, 2022  
Time: 8.30 am – 10.30am

**INSTRUCTIONS TO CANDIDATES**

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

**QUESTION ONE (30 MARKS)**

- a) One of the finance functions of a finance manager is financing decision. Explain the three things to consider in this when making decisions. (6 Marks)
- b) Outline three different ways in which you can use the financial ratios (6 Marks)
- c) Identify six routine functions performed by junior staff in the finance departments. (6 Marks)
- d) Outline the reasons that may drive a company to raise equity finance than debt finance (6 Marks)
- e) Highlight the functions of Nairobi Securities Exchange. (6 Marks)

**QUESTION TWO (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 the opening remark by the guest speaker in a seminar whose theme was "Developing out capital market".

**Required:**

- i) Explain six 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 having central depository system (CDS) to the investors. (8 Marks)

**QUESTION THREE (20 MARKS)**

- a) Examine the importance of financial analysis to the following parties with a financial stake in the company.
  - i) Creditors (2 Marks)
  - ii) Government (2 Marks)
  - iii) Investors (2 Marks)
- b) Examine the main objectives of a company that have indirect benefits in the future growth of the business. (6 Marks)
- c) Profit maximization is the traditional objective which has been criticized due to its limitation. Explain four of these limitations. (8 Marks)

#### **QUESTION FOUR (20 MARKS)**

- a) Analyze the conflicts that might exist in agency relationship between;
- i) Shareholders and managers (5 Marks)
  - ii) Shareholders and government (5 Marks)
- b) Demonstrate Practical difficulties faced by small scale enterprises in obtaining credit. (10 Marks)

#### **QUESTION FIVE (20 MARKS)**

- a) Rafiki Hardware Tools Company Limited sells plumbing fixtures. Its financial statements for the last three years are as follows:

	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<b>Sh'000'</b>	<b>Sh'000'</b>	<b>Sh'000'</b>
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) Acid test ratio (2 Marks)
  - ii) Average collection period, (2 Marks)
  - ii) Inventory turnover (2 Marks)
  - iv) Total debt/equity (2 Marks)
  - v) Net profit margin and Return on assets. (2 Marks)
- b) Examine the best sources of finance businesses can use especially when the economic conditions are at recession. (10 Marks)