



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 WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR
FIRST YEAR, SECOND SEMESTER EXAMINATION
FOR THE DIPLOMA IN ACCOUNTING
DFI 1103: BUSINESS FINANCE

Date: 7TH DECEMBER 2022

Time: 11:30a.m- 1:30p.m

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. Discuss the three things to consider in this when making this decision. (6 Marks)
- b) List different ways in which you can use the financial ratios in the business. (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 Security 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 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)

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)
 - iv) Customers (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) Analyse conflict 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:

	2019	2020	2020
	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) Acid test ratio (3 Marks)
 - ii) Average collection period, (3 Marks)
 - iii) Inventory turnover (3 Marks)
 - iv) Total debt/equity (3 Marks)
- b) Carol a hairdresser, wants to set up a business for herself. In other words, she has a potential Business Start Up. Describe four factors that she will consider to arrive at the best source of capital for her business. (8 Marks)