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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR**  
**SECOND YEAR, FIRST SEMESTER EXAMINATION**  
**FOR THE DEGREE OF BACHELOR OF SCIENCE**  
**(BUSINESS ADMINISTRATION)**

Date: 14<sup>th</sup> April, 2023  
Time: 2.30 – 4.30pm

**KFI 200 - BUSINESS FINANCE**

**INSTRUCTIONS TO CANDIDATES**

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

**QUESTION ONE (30 MARKS)**

- a) Two neighboring countries have chosen to organize their electricity supply industries in different ways. In country A, electricity supplies are provided by a nationalised industry. On the other hand in country B electricity supplies are provided by a number of private sector companies. Explain how the objectives of the nationalised industry in country A might differ from those of the private sector companies in country B. (2 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. (8 Marks)
- c) Highlight the drawbacks for using ratios in measuring the performance of the firm. (6 Marks)
- d) Highlight the difference between profit maximization and wealth maximization objectives of the business. (6 Marks)
- e) Consider companies A and B

Company	A	B
	Sh. '000'	Sh. '000'
10% debt	1,000	-
Equity	-	1,000
	<u>1,000</u>	<u>1,000</u>

The tax rate is 30% and earnings before interest and tax amount to Ksh.400,000. All earnings are paid out as dividends. Compute amount payable by each firm. (8 Marks)

## **QUESTION TWO (20 MARKS)**

- a) Discuss three functions of a financial manager in a contemporary corporate set-up. (6 Marks)
- b) Explain why Valuation of ordinary shares is more complicated than valuation of bonds and preference shares. (6 Marks)
- c) Peso limited intends to purchase a machine worth Shs.1,500,000 which will have a residue value Shs.200,000 after 5 years useful life. The saving in cost resulting from the use of this machine are:

	Shs.
Year 1	800,000
Year 2	350,000
Year 3	-
Year 4	680,000
Year 5	775,000

Using NPV method, advise the company whether this machine should be purchased if the cut off rate is 14% and acceptable saving in cost is 12% of the cost of the investment.

(8 Marks)

## **QUESTION THREE (20 MARKS)**

- a) Examine reasons why venture capital market is not developed in Kenya. (6 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:

- i) Calculate the value would you place on the stock if an 18% rate of return were required. (6 Marks)
- ii) The stream of dividends of XYZ Ltd for the past 4 years was as follows:

Year	1999	2000	2001	2002
DPS Sh.	2.50	2.65	2.76	2.81

The cost of equity is 14%. Determine the price of a share. (8 Marks)

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

- a) Analyse the differences between internal and external sources of finance. (8 Marks)
- b) Demonstrate the features of a sound project appraisal technique. (6 Marks)
- c) Discuss the advantages of leasing an asset compared to borrowing to buy an asset especially now when banks are imposing stringent measures on borrowers. (6 Marks)

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

The following financial statements relate to the ABC Company:

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	Long term debt (10%)	300,000
Net fixed assets	<u>285,750</u>	Net worth	<u>663,000</u>
	<u>1,233,750</u>		<u>1,233,750</u>

#### **Income Statement for the year ended 31 March 2020**

	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	71,250
	<u>28,500</u>
Estimated taxation (40%)	<u>42,750</u>
Earnings after interest and tax	

#### **Required**

- a) Calculate:
- i) Inventory turnover ratio; (3 Marks)
  - ii) Times interest earned ratio; (3 Marks)
  - iii) Total assets turnover; (3 Marks)
  - iv) Net profit margin (3 Marks)
- b) Discuss the action taken by shareholders which could be harmful to the bondholders and the solutions to the conflict. (8 Marks)