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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2018/2019 ACADEMIC YEAR
FIRST YEAR, SECOND SEMESTER EXAMINATION
FOR THE DIPLOMA OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)**

Date:
Time:

DFI- BUSINESS FINANCE

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE(30MARKS)

- a.) Discuss the functions of a finance manager **(8marks)**
- b.) List 3 reasons why the goal of wealth maximization is superior to that of profit maximization **(3marks)**
- c.) Give 3 advantages of the payback period method of project appraisal **(3marks)**
- d.) "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) The advantages of being listed at the stock exchange (7marks)
- (ii) Highlight four factors that may hinder companies from being listed at the stock exchange (4marks)
- e) Explain reasons that may drive a company to raise equity finance than debt finance (5marks)

QUESTION TWO (20MARKS)

- a) Name and explain 3 participants in the money markets (6marks)
- b) Differentiate between liquidity ratios and profitability ratios (4marks)
- c) Explain two uses of financial ratios (4marks)
- d) Discuss the main problems sole traders' encounter in a bid to raise finance on Kenya's financial markets. (6marks)

QUESTION THREE (20MARKS)

- a) Within a business finance context, discuss the problems that might exist in the relationships (sometimes referred to as agency relationships) between:

- i) Shareholders and managers, and (5marks)
- ii) Shareholders and creditors. (5marks)

- b) Why different sources of capital have different costs. (10marks)

QUESTION FOUR (20MARKS)

- a) The following information was obtained from the final accounts of ABC Limited:

Current assets = 1900, 000

Average stock = 780,000

Quick assets = 1,120,000

Over draft= 750,000

Cost of goods sold= 4,475,000

Required;

Calculate the following financial ratios for ABC Limited:

i) Current ratio (2marks)

ii) Acid test (2marks)

iii) Adjusted acid test ratio (2marks)

iv) Average stock turnover (2marks)

b) Discuss the main objectives of a business . (8marks)

c) Explain the advantage of using Net present value over accounting rate of return. (4marks)

QUESTION FIVE(20MARKS)

a) Explain the features of a sound appraisal technique? (6 marks)

b) Outline practical problems are faced by finance managers in capital budgeting decisions? (6 marks)

c) Describe the features of long term investment decisions. (8 marks)