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KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
FIRST YEAR, SECOND SEMESTER EXAMINATION
FOR THE DIPLOMA IN ACCOUNTING
DFI 1103: BUSINESS FINANCE

Date: 9TH AUGUST 2023

Time: 11:30AM-1:30PM

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

a. Discuss the difference between shareholder wealth maximization and profit maximization.

(6 Marks)

b. Shareholders are owners of a business enterprise yet they don't oversee the day to day operations in their business. What can you argue is the reason for this?

(6 Marks)

c. Given the information in the table below:

Company	A (KES: '000')	B (KES: '000')
10% debt	3000	-
Equity	-	3000
Total	3000	3000

The corporate tax rate is 35% and earnings before interest and tax amount to Ksh. 600,000. If all earnings are paid out as dividends;

i. Compute the amount of tax payable by each firm.

(4 Marks)

ii. Illustrate how tax is an allowable expense when a firm uses debt capital as a source of finance.

(2

Marks)

d. Highlight six constraints that managers face in their application of ratios to analyse various aspects of a firm.

(6 Marks)

e. Define who investment bankers are and state five functions they play in financial markets.

(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) Carol a hairdresser, wants to set up a business for herself. In other words, she has a potential Business Start Up. Describe five factors that she will consider to arrive at the best source of capital for her business.

(8

Marks)

QUESTION THREE (20 MARKS)

a. Identify and explain five features that form the basis of distinction between capital generated through sale of ordinary shares and capital generated through preferred shares.

(10 Marks)

- b. Explain the term central depository system as used in stock market. (2 Marks)
- c. A central depository system enables transfer of securities without the need for physical movement. Explain four special functions of this system in a financial market. (8 Marks)

QUESTION FOUR (20 MARKS)

- a. State and explain any three categories of preference share capital that you know. (6 Marks)
- b. The following is an extract of balance sheet from the financial statements of NYANKOBA FACTORY LTD for the year ending 31st June 2022.

Fixed Assets 144000

Current assets

- Stock 62300
- Debtors 34980
- Bank Balance 760

Current Liabilities

- Creditors 19030
- Bank Overdraft 4200

Financed by:

- Long-Term Debt 500000
- Ordinary share capital 95000
- Preference share capital 105000

Additional information:

- Recorded sales revenue is sh. 18,160,000
- Cost of sales is sh. 10,400,000
- Gross profit is sh. 6,700,000
- Stock as at 1st July 2021 was sh.52,000

Use the information above to calculate the following ratios:

- i. Quick ratio. (2 Marks)
 - ii. Stock-Turnover ratio. (3 Marks)
 - iii. Gross Profit Margin. (2 Marks)
 - iv. Debt ratio. (3 Marks)
- c. Characterise 'Business Finance' in four different ways. (4 Marks)

QUESTION FIVE (20 MARKS)

- a. Describe the agency relationship that exist between creditors and shareholders. (5 Marks)
- b. In reference of the above explain the solution that arises among them. (5 Marks)
- c. Ratio analysis is important to various parties with a financial stake in the company. Identify five parties and explain what each party is interested in that would make him/her use ratios. (10 Marks)