

Name _____ Index No. _____ / _____

1903/203

1906/203

BUSINESS FINANCE

July 2014

Time: 3 hours

Candidate's signature _____

Date _____



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THE KENYA NATIONAL EXAMINATIONS COUNCIL

CRAFT CERTIFICATE IN SUPPLY CHAIN MANAGEMENT
CRAFT CERTIFICATE IN BUSINESS MANAGEMENT

BUSINESS FINANCE

3 hours

INSTRUCTIONS TO CANDIDATES

Write your name and index number in the spaces provided above.
Sign and write the date of the examination in the spaces provided above.
This paper consists of TWO sections; A and B.
Answer ALL the questions in both sections in the spaces provided.
Show all your workings clearly.
Maximum marks for each part of a question are as shown.
Do NOT remove any pages from this booklet.
Candidates should answer the questions in English.

For Examiner's Use Only

Section	Question	Maximum Score	Candidate's Score
A	1-10	32	
B	11	17	
	12	17	
	13	17	
	14	17	
Total Score		100	

This paper consists of 12 printed pages.

Candidates should check the question paper to ascertain that all the pages are printed as indicated and that no questions are missing.

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Turn over

SECTION A (32 marks)

Answer ALL the questions in this section.

1. Pazuri Limited is considering raising Ksh 2 billion through a rights issue. Outline the advantages of raising finance through a rights issue as opposed to a public issue. (4 marks)

2. Outline **three** costs that are associated with the management of trade credit given. (3 marks)

3. Explain how the following items could be used to maximise the profits of a company.

- (i) Bank overdraft;
(ii) Taxation

(4 marks)

4. State **three** reasons why money has time value. (3 marks)

5. Explain the following terms as used at the stock exchange: (2 marks)

- (i) Cum-right;
- (ii) Ex-right.

6. State **three** merits of investing in government bonds. (3 marks)

7. The reported financial results of Majo Enterprises for the year 2011 have the following highlights:

Net profit before interest and tax	Ksh 100 million
Interest	Ksh 60 million
Tax rate	30%
Profit after tax	Ksh 28 million

Advise the following stakeholders on the performance of the company:

- (i) Government;
- (ii) Lenders;
- (iii) Shareholders.

(3 marks)

8. Highlight **three** characteristics of long-term investment projects. (3 marks)

9. The current market price of an equity share of Simba Limited is Ksh.80. The current dividend per share is Ksh.4. The dividends are expected to grow at the rate of 10%. Calculate the cost of equity capital. (4 marks)

10. Identify **three** housing finance institutions operating in Kenya. (3 marks)

SECTION B (68 marks)

11. (a) (i) Define 'Sale - Lease Back' as a source of short term finance.
- (ii) Using **four** points, explain the aspects or characteristics of the source of finance in (i) above. (9 marks)
- (b) Explain **four** reasons why few companies are listed at the Nairobi Securities Exchange market. (8 marks)

12. (a) The following information relates to Bamazi International Limited as at 30 June, 2010.

Profit after tax 50%	Ksh 1,256,000
Ordinary dividend paid	18%
Market price of each ordinary share	Ksh 32
Issued Capital:	
- 12% Preference shares of Ksh 20 each	Ksh 3,600,000
- Ordinary shares of Ksh 20 each	Ksh 4,800,000

(i) Calculate:

- (I) the dividend yield on the ordinary share; (2 marks)
- (II) the price earnings (P/E) ratio. (2 marks)

(ii) Comment on the shortcomings of the ratio in (II) above, in evaluating stocks. (5 marks)

(b) Explain **four** services rendered by the Central Bank to commercial banks. (8 marks)

13. (a) Zonex Limited plans to replace its water purification plant in order to increase the production capacity and improve quality. The following information relates to two types of machines available in the market.

	Machine X	Machine Y
Purchase price	Ksh 250,000	Ksh 250,000
Estimated life	5 years	5 years
Estimated net returns (before depreciation)		
	Year	Kshs
	1	120,000
	2	100,000
	3	80,000
	4	60,000
	5	60,000

Both machines will have a nil residual value after 5 years.

- (i) Using the Accounting Rate of Return (ARR) method, recommend which machine should be acquired. (6 marks)
- (ii) Outline **three** shortcomings of using the method in (i) above in the evaluation of projects. (3 marks)
- (b) The primary objective of a business is profit maximization.

Describe how this objective conflicts with other objectives of an organisation.

(8 marks)

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14. (a) (i) In calculating the weighted average cost of capital, market value weights or book value weights, may be used. Explain the advantages of using market value weights over the book value weights. (6 marks)
- (ii) Nafuu and Sons Private Limited has decided to go public by issuing shares to raise funds for its expansion programmes. Highlight three flotation costs that the company may incur. (3 marks)
- (b) Njambi had a plan to start a business after 3 years. The initial capital required for this business was Ksh.880,000. To accumulate this amount, he deposited Ksh.320,000 in the bank at the beginning of the first year. He deposited Ksh.160,000 at the beginning of the second year. Compound interest was paid at the rate of 10% per annum.
- Calculate the amount Njambi was to deposit at the beginning of the third year to enable him get the required capital at the end of the third year. (8 marks)