

1903/203
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BUSINESS FINANCE
July 2023
Time: 3 hours



THE KENYA NATIONAL EXAMINATIONS COUNCIL

**CRAFT CERTIFICATE IN SUPPLY CHAIN MANAGEMENT
CRAFT CERTIFICATE IN BUSINESS MANAGEMENT
CRAFT CERTIFICATE IN HUMAN RESOURCE MANAGEMENT**

BUSINESS FINANCE

3 hours

INSTRUCTIONS TO CANDIDATES

*This paper consists of TWO sections: A and B.
Answer ALL the questions in the answer booklet provided.
Show all your workings clearly.
Maximum marks for each part of a question are as shown.
Candidates should answer the questions in English.*

This paper consists of 5 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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SECTION A (32 marks)

Answer ALL questions in this section.

1. State the meaning of the term, "Business Finance". (2 marks)
2. List **four** sources of finance to a sole proprietorship form of business. (4 marks)
3. Outline **four** limitations of ratio analysis in measuring the performance of a business. (4 marks)
4. An ordinary share in Safu Limited is currently selling at Ksh.15.50. The company had paid a dividend of Ksh. 2.15 per share. The dividend is expected to grow at a rate of 5% per year. Calculate the cost of equity. (3 marks)
5. Highlight **four** factors that may have led to the increase in the number of savings and credit co-operative societies in Kenya in the recent past. (4 marks)
6. Differentiate between re-order level and economic order quantity (EOQ) in the management of working capital. (2 marks)
7. Murembo Limited intends to invest Ksh. 255,000 in purchasing a machine. The following are the annual profits expected from the machine.

Year	1	2	3	4	5
Profits (Ksh)	30,000	45,000	70,000	65,000	55,000

- (i) Calculate the Accounting rate of return (ARR), of the machine;
 - (ii) It is the policy of the company to accept investments with an Accounting Rate of Return (ARR) of at least 45%. Advise the management on whether to invest in the machine or not. (4 marks)
8. State **four** functions of a commercial bank. (4 marks)
 9. Sigei intends to deposit Ksh. 1,500,000 in a fixed deposit account, paying compound interest at the rate of 10% per annum, compounded half yearly, for 3 years. Calculate the amount in the account at the end of the 3 years. (2 marks)
 10. Outline **three** limitations of relying on retained earnings to finance a business. (3 marks)

SECTION B (68 marks)

Answer ALL questions in this section.

11. (a) Explain **five** ways in which the knowledge of Business Finance may be applied in a company. (10 marks)

(b) The following information relates to Lico Limited,

- Ordinary share capital.

The company expects to pay ordinary dividends of Kshs 4 per share. The dividends are expected to grow at a rate of 5% per annum.

The current market price of an ordinary share is Ksh. 15.

- A 10% preference share capital with a par value of Ksh. 100 each and a current market price of Ksh. 70 each.

- A 12%, 10 year, debenture of Ksh. 125, with a current market price of Ksh.100.

Calculate the component costs of capital.

(7 marks)

12. (a) Explain **five** advantages of equity finance as a source of capital in a business. (10 marks)

(b) The following information relates to material K95 used by a processing firm:

Annual demand	16,000 units
Ordering cost per order	Ksh. 2,500
Purchase price per unit	Ksh. 1,000

Holding cost per unit per annum 20% of the purchase price.

(The firm operates for 360 days in a year)

Calculate the:

(i) economic order quantity, (EOQ);

(ii) number of orders per year;

(iii) total relevant cost for material k95.

(8 marks)

13. (a) Differentiate between each of the following ratios used in measuring the performance of a company:

(i) Current ratio and cash ratio;

(ii) Gross margin ratio and return on assets ratio.

(8 marks)

(b) A company intends to invest Ksh. 1,300,000 in either project A or project B. The following are the expected net cash inflows from the projects:

Year	Project A (Ksh)	Project B (Ksh)
1	200,000	150,000
2	450,000	250,000
3	670,000	400,000
4	780,000	800,000
5	500,000	600,000

(i) Calculate the Payback Period(PBP) of each project;

(ii) Based on the results in (i) above, advise the management on the project to invest in;

(iii) Outline **three** advantages of the payback period method.

(9 marks)

14. (a) Explain **four** advantages of internet banking to a bank customer.

(8 marks)

(b) Highlight **four** differences between equity finance and debt finance.

(8 marks)

Table A
Present Value of \$1 Received at the End of n Periods:
 $PVIF_{r,n} = 1/(1+r)^n$

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	12%	14%	15%	16%	18%	20%	24%	28%	32%	36%
1	.9901	.9804	.9709	.9615	.9524	.9434	.9346	.9259	.9174	.9091	.8929	.8772	.8696	.8621	.8475	.8333	.8085	.7813	.7578	.7353
2	.9803	.9612	.9426	.9246	.9070	.8900	.8734	.8573	.8417	.8264	.7972	.7695	.7561	.7432	.7182	.6944	.6504	.6104	.5739	.5407
3	.9706	.9423	.9151	.8890	.8638	.8396	.8163	.7938	.7722	.7513	.7118	.6750	.6575	.6407	.6086	.5787	.5245	.4768	.4348	.3975
4	.9610	.9238	.8865	.8548	.8227	.7921	.7629	.7350	.7084	.6830	.6355	.5921	.5718	.5523	.5158	.4823	.4230	.3725	.3294	.2923
5	.9515	.9057	.8626	.8219	.7835	.7473	.7130	.6806	.6499	.6209	.5674	.5194	.4972	.4761	.4371	.4019	.3411	.2910	.2495	.2149
6	.9420	.8880	.8375	.7903	.7462	.7050	.6663	.6302	.5963	.5645	.5066	.4556	.4323	.4104	.3704	.3349	.2751	.2274	.1890	.1580
7	.9327	.8706	.8131	.7599	.7107	.6651	.6227	.5835	.5470	.5132	.4523	.3996	.3759	.3538	.3139	.2791	.2218	.1776	.1432	.1162
8	.9235	.8535	.7884	.7307	.6768	.6274	.5820	.5403	.5019	.4665	.4039	.3506	.3269	.3050	.2660	.2326	.1789	.1388	.1085	.0854
9	.9143	.8368	.7664	.7026	.6446	.5919	.5439	.5002	.4604	.4241	.3606	.3075	.2843	.2630	.2255	.1936	.1443	.1084	.0822	.0628
10	.9053	.8203	.7441	.6756	.6139	.5584	.5093	.4632	.4224	.3855	.3220	.2697	.2472	.2267	.1911	.1615	.1164	.0847	.0623	.0462
11	.8963	.8043	.7224	.6496	.5847	.5268	.4751	.4289	.3875	.3505	.2875	.2366	.2149	.1954	.1619	.1346	.0938	.0662	.0472	.0340
12	.8874	.7885	.7014	.6246	.5568	.4970	.4440	.3971	.3555	.3186	.2567	.2076	.1869	.1685	.1372	.1122	.0757	.0517	.0357	.0250
13	.8787	.7730	.6810	.6006	.5303	.4688	.4150	.3677	.3262	.2897	.2292	.1821	.1625	.1452	.1163	.0935	.0610	.0404	.0271	.0184
14	.8700	.7579	.6611	.5775	.5051	.4423	.3878	.3405	.2992	.2633	.2046	.1597	.1413	.1252	.0985	.0779	.0492	.0316	.0205	.0135
15	.8613	.7430	.6419	.5553	.4810	.4173	.3624	.3152	.2745	.2394	.1827	.1401	.1229	.1079	.0835	.0649	.0397	.0247	.0155	.0099
16	.8528	.7284	.6232	.5339	.4581	.3936	.3387	.2919	.2519	.2176	.1631	.1229	.1069	.0930	.0708	.0541	.0320	.0193	.0118	.0073
17	.8444	.7142	.6050	.5134	.4363	.3714	.3166	.2703	.2311	.1978	.1456	.1078	.0929	.0802	.0600	.0451	.0258	.0150	.0089	.0054
18	.8360	.7002	.5874	.4936	.4155	.3503	.2959	.2502	.2120	.1799	.1300	.0946	.0808	.0691	.0508	.0376	.0208	.0118	.0068	.0039
19	.8277	.6864	.5703	.4746	.3957	.3305	.2765	.2317	.1945	.1635	.1161	.0829	.0703	.0596	.0431	.0313	.0168	.0092	.0051	.0029
20	.8195	.6730	.5537	.4564	.3769	.3118	.2584	.2145	.1784	.1486	.1037	.0728	.0611	.0514	.0365	.0261	.0135	.0072	.0039	.0021
25	.7798	.6095	.4776	.3751	.2953	.2330	.1842	.1460	.1160	.0923	.0588	.0378	.0304	.0245	.0160	.0105	.0046	.0021	.0010	.0005
30	.7419	.5521	.4120	.3083	.2314	.1741	.1314	.0994	.0754	.0573	.0334	.0196	.0151	.0116	.0070	.0042	.0016	.0006	.0002	.0001
40	.5717	.4529	.3066	.2083	.1420	.0972	.0668	.0460	.0318	.0221	.0107	.0053	.0037	.0026	.0013	.0007	.0002	.0001	.0001	.0001
50	.6080	.3715	.2281	.1407	.0872	.0543	.0339	.0213	.0134	.0085	.0035	.0014	.0009	.0006	.0003	.0001	.0001	.0001	.0001	.0001
60	.5604	.3048	.1697	.0951	.0535	.0303	.0173	.0099	.0057	.0033	.0011	.0004	.0002	.0001	.0001	.0001	.0001	.0001	.0001	.0001

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