THE KENYA NATIONAL EXAMINATIONS COUNCIL

CRAFT CERTIFICATE IN SUPPLY CHAIN MANAGEMENT
CRAFT CERTIFICATE IN BUSINESS MANAGEMENT

BUSINESS FINANCE

3 hours

INSTRUCTIONS TO CANDIDATES

This paper consists of TWO sections: A and B.
Answer ALL the questions in both sections in the answer booklet provided.
Show ALL your workings clearly.
Maximum marks for each part of a question are as shown.
Do NOT remove any pages from this question paper.
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.

SECTION A (32 marks)

Answer ALL the questions in this section.

1. State **four** uses of financial ratios. (4 marks)

2. Highlight **three** demerits of using Pay-Back Period as a method of evaluating capital investment projects. (3 marks)

3. Mr. Laban has invested Ksh. 120,000 in a fixed deposit account at the Millennium Bank. The bank pays interest at the rate of 8% p.a., compounded quarterly. Calculate the amount which shall be in his account after 4 years. (3 marks)

4. Outline **three** disadvantages of not having adequate stock in a business. (3 marks)

5. Highlight **four** disadvantages of the use of preference shares as a source of finance. (4 marks)

6. Penta Ventures Limited paid dividends at the rate of Ksh. 5.50 per share at the end of the last financial year. The current market price per share is Ksh. 45. The company expects the future earnings to grow by 6% p.a.
   Calculate the firm's cost of equity. (3 marks)

7. Outline the importance of business finance to an organisation. (2 marks)

8. Outline **four** services that may be rendered by a commercial bank to its customers. (4 marks)

9. Bamako Enterprises Limited utilizes 50,000 units of a certain raw material per year. The ordering cost is Ksh. 15,000 per order. Each unit of the material costs Ksh. 160. The carrying cost is 10% of the unit cost. Calculate the Economic Order Quantity (EOQ). (3 marks)

10. Banda Manufacturers Limited intends to invest Ksh. 400,000 in a project. The expected cash inflows are as follows:

YEAR	CASH IN FLOWS (Ksh.)
1	150,000
2	200,000
3	450,000
4	500,000
5	520,000

The cost of capital is 12% p.a. Calculate the Discounted Pay-Back period. (3 marks)

SECTION B (68 marks)

Answer ALL the questions in this section.

11.   (a)   Magadi Enterprises Limited intends to raise additional finance from the following sources:

- 100,000 ordinary shares of Ksh. 10 each at Ksh. 15;
- 100,000 10% preference shares of Ksh. 10 each at 12;
- Medium term loan of Ksh. 5,000,000 at the interest rate of 20% p.a.

The company expects to pay an annual dividend to ordinary shareholders at the rate of 14%. The corporation tax rate is 30%.

Determine the:

(i)   total amount the company will raise if the plan is realized;

(ii)   weighted average cost of capital of the additional finance.

(9 marks)

(b)   Explain **four** functions of the Central Bank of Kenya as a banker to the government.

(8 marks)

12.   (a)   Simba Limited is considering investing in a machine. The initial cash outlay required will be Ksh. 1,500,00. The cash in flows expected from the machine are given below.

YEAR	CASH IN FLOWS (Ksh.)
1	400,000
2	300,000
3	450,000
4	600,000
5	670,000

The cost of capital is 16% p.a.

(i)   Determine the:

(I)   payback period;

(II)   profitability index.

(ii)   Using the result in (i) II above, advice the company on whether the project should be undertaken or not, giving reason(s) for your answer.   (9 marks)

(b)   Outline **four** disadvantages of having excess liquidity in an organisation.

(8 marks)

13. (a) Explain **four** limitations of using financial ratios in evaluating the performance of an organisation. (8 marks)

(b) Outline **six** differences between ordinary shares and preference shares, as sources of finance. (9 marks)

14. (a) William is planning to buy a motor vehicle in five years' time. The motor vehicle is expected to cost Ksh. 3,600,000. He deposited Ksh. 400,000, Ksh. 200,000, Ksh. 450,000 and Ksh. 600,000 at the beginning of 1st, 2nd, 3rd and 4th years, respectively. Calculate the amount he should deposit at the beginning of the fifth year to enable him to buy the car, if the bank pays compound interest at the rate of 8% p.a. (9 marks)

(b) Using **four** points, explain the importance of the cost of capital in investment decisions. (8 marks)

Present Value of 1 Received at the End of n Periods:

$$PVIF_{r,n} = 1/(1+r)^n = (1+r)^{-n}$$

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	.8065	.7813	.7576	.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	.8885	.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	.7894	.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	.1938	.1443	.1084	.0822	.0628
10	.9053	.8203	.7441	.6756	.6139	.5584	.5083	.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	.6717	.4529	.3066	.2083	.1420	.0972	.0668	.0460	.0318	.0221	.0107	.0053	.0037	.0026	.0013	.0007	.0002	.0001		
50	.6080	.3715	.2281	.1407	.0872	.0543	.0339	.0213	.0134	.0085	.0035	.0014	.0009	.0006	.0003	.0001				
60	.5504	.3048	.1697	.0951	.0535	.0303	.0173	.0099	.0057	.0033	.0011	.0004	.0002	.0001						

* The factor is zero to four decimal places

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