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 **FOURTEEN** *questions in* **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.
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.

Answer ALL the questions in this section.

1. State **three** uses of cost of capital in business management. (3 marks)

2. Outline **three** uses of financial ratios to the management of any business organization. (3 marks)

3. Highlight **three** advantages of investment appraisal to a business. (3 marks)

4. State **three** types of costs associated with holding stock in a business. (3 marks)

5. Nyungu Limited intends to invest Ksh. 6,000,000 in a project. The present values of the expected cash inflows for a period of 4 years are as follows:

Year	Present Values (Ksh.)
1	1,818,200
2	2,066,000
3	2,253,900
4	1,862,700

    Advise the management whether to undertake the project or not, using the Net Present Value approach. (4 marks)

6. Karim deposited Ksh. 100,000 in a bank account for a period of 4 years at a compound interest rate of 8% per annum. Determine the amount in his account at the end of the 4 years. (4 marks)

7. Outline **three** functions of financial intermediaries in an economy. (3 marks)

8. State **three** external sources of finance to a business organisation. (3 marks)

9. Outline **three** assumptions of the Economic Order Quantity (EOQ) model. (3 marks)

10. Highlight **three** differences between preference shares and ordinary shares, as sources of business finance. (3 marks)

SECTION B (68 marks)

*Answer **ALL** the questions in this section.*

11.　(a)　Explain **four** features of venture capital.　(8 marks)

　　　(b)　Outline **six** factors which may determine working capital requirements of a firm.

　　　　　(9 marks)

12.　(a)　The following is the capital structure of Lambak Limited as at 31 December 2015.

	Ksh.
25,000 ordinary shares of Ksh. 100 each	2,500,000
Reserves	3,500,000
10% Debentures	1,000,000
12% Loan	3,000,000

The market price of each ordinary share was Ksh. 125 while dividend paid per share was Ksh 5.00. The corporation tax was 30%.

Calculate the Weighted Average Cost of Capital.　(9 marks)

　　　(b)　Explain **four** functions of merchant banks.　(8 marks)

13.　(a)　Magnet Ventures has borrowed Ksh. 20,000,000 from a bank at an interest rate of 14% per annum, which it intends to invest in a project. The following are the expected cash inflows from the project.

Year	1	2	3	4	5
Expected cash inflows (Ksh.)	5,000,000	8,000,000	12,000,000	6,000,000	4,000,000

　　　　(i)　Calculate the Net Present Value (NPV) at:

　　　　　　(I)　14%;
　　　　　　(II)　32%.

　　　　(ii)　Using the results in (i) above, determine the Internal Rate of Return (IRR) of the project.

　　　　(iii)　Advise the management on whether to invest in the project or not.

　　　　　(9 marks)

(b)   The following information relates to Material B28 used by Mamba Limited.

Normal usage   100 units per week
Maximum usage   150 units per week
Minimum usage   50 units per week
Reorder Quantity (EOQ)   500 units
Lead time   5-7 weeks

Calculate each of the following:

(i)   Re-order level;
(ii)   Minimum stock level;
(iii)   Maximum stock level;
(iv)   Average stock level.

(8 marks)

14.   (a)   Explain the use of each of the following ratios in making business decisions:

(i)   Return on capital employed;
(ii)   Net assets turnover;
(iii)   Current ratio;
(iv)   Gearing ratio.

(8 marks)

(b)   Mumo is planning to invest in a machine in 6 year's time. The machine is expected to cost Ksh. 12,000,000. He intends to make the following deposits at the beginning of each year.

Year	Amount (Ksh.)
1	500,000
2	1,000,000
3	2,000,000
4	2,500,000
5	1,000,000

The bank pays interest on deposits at the rate of 8% per annum.

Determine the amount he needs to deposit at the beginning of the sixth year to enable him buy the machine.   (9 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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