

1804/302
1805/302
1806/302
BUSINESS FINANCE
March/April 2025
Time: 3 hours



THE KENYA NATIONAL EXAMINATIONS COUNCIL

**CRAFT CERTIFICATE IN ACCOUNTANCY
CRAFT CERTIFICATE IN BANKING AND FINANCE
CRAFT CERTIFICATE IN BUSINESS ADMINISTRATION**

BUSINESS FINANCE

3 hours

INSTRUCTIONS TO CANDIDATES

This paper consists of TWO sections; A and B.

Answer ALL the questions in Section A and any FOUR questions in Section B in the answer booklet provided.

Candidates should answer the questions in English.

This paper consists of 6 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 questions in this section.

1. State **three** advantages of hire purchase as a source of business finance. (3 marks)
2. State **three** financial goals of a firm. (3 marks)
3. The following information relates to Tamah Limited:
 - Creditors repayment period 40 days
 - Inventory turnover period 20 days.
 - Debtors collection period 30 days.

Calculate the company's operating cycle. (3 marks)
4. Patricia deposited a certain amount of money in a bank 3 years ago. The bank pays simple interest at the rate of 6% per annum. The total amount of interest earned to date is Ksh 72,000. Determine the initial amount deposited at the bank. (4 marks)
5. The ordinary shareholders of Zedit Limited have received a dividend of Ksh 2 per share. The dividend is expected to grow at the rate of 3% per annum. The current price of the ordinary share is Ksh 50. Calculate the cost of equity. (4 marks)
6. State **three** roles of pension funds. (3 marks)
7. The profitability index of a certain project is 0.8117. Advise an investor whether to undertake the project or not. (2 marks)
8. State **three** features of a credit card as a short-term source of business finance. (3 marks)
9. List **three** types of information contained in a partnership deed. (3 marks)
10. Jamboyi has deposited Ksh 380,000 in a fixed deposit account that pays interest at the rate of 8% per annum, compounded semi-annually. Determine the expected amount at the end of 4 years. (4 marks)

SECTION B (68 marks)

*Answer any **FOUR** questions from this section.*

11. (a) Explain **four** features of a bank loan as a source of finance for a business organisation. (8 marks)
- (b) Patumos Limited intends to invest Ksh 1,200,000 in either Project T or Project R. The following are the expected net cash inflows from the projects:

	PROJECT T	PROJECT R
Year	Ksh	Ksh
1	990,000	1,100,000
2	950,000	890,000
3	800,000	790,000
4	450,000	420,000
5	400,000	350,000

Additional information:

- I. The scrap value of Project T and Project R are Ksh 280,000 and Ksh 250,000 respectively.
- II. The company's cost of capital is 14%.
- (i) Determine the Net Present Value (NPV) of each project.
- (ii) Advise the management on the project to invest in. (9 marks)
12. (a) Explain **four** ways of increasing the collection of accounts receivable in a firm. (8 marks)
- (b) The following information relates to Waseme Limited.
- I. Extracts from the income statement for the year ended 31 December:

	2023	2024
	Ksh	Ksh
Sales	3,620,000	3,200,000
Profit after tax	370,000	460,000
Dividends - ordinary	100,000	110,000

II. Extracts from the statement of financial position as at:

	31 December 2023	31 December 2024
	Ksh	Ksh
Furniture and fittings	3,270,000	2,990,000
Inventory	1,280,000	1,160,000
Accounts receivable	950,000	800,000
Accounts payable	660,000	570,000
Retained earnings	1,980,000	2,250,000
Ordinary shares of Ksh 10 each	3,000,000	3,000,000
Bank	140,000	270,000

(i) For each of the years, calculate the:

- I. return on equity;
- II. fixed assets turnover ratio;
- III. quick ratio;
- IV. dividend payout ratio.

(ii) Based on the results in III above, comment on the liquidity of the company.,
(9 marks)

13. (a) Explain **four** factors that may influence the level of working capital in a business firm.
(8 marks)

(b) Madani intends to borrow Ksh 90,000 from a bank that charges interest at the rate of 12% per annum on reducing balance basis. The loan is to be repaid in four equal annual installments at the end of every year. Prepare a loan amortization schedule.
(9 marks)

14. (a) Explain **four** services offered by the Central Bank of Kenya (CBK) to commercial banks.
(8 marks)

(b) The following is the capital structure of Fadam Limited.

	Ksh
2,500,000 ordinary shares	10,000,000
300,000, 7% preference shares	300,000
12% irredeemable debentures	3,000,000
Retained earnings	1,200,000

Additional information:

- The ordinary shareholders expect to receive a dividend of Ksh 0.20 per share.
- The market price of an ordinary share is Ksh 5.
- The market price of a preference share is Ksh 1.50.
- Corporation tax rate is 30%.

Determine the:

- (i) cost of each source of capital;
 - (ii) weighted average cost of capital using the market values. (9 marks)
15. (a) Explain six clauses of the Memorandum of Association of a company. (9 marks)
- (b) Highlight **four** limitations of using promissory notes as a source of business finance. (8 marks)

Table A

Present Value of Sh 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	.1769	.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	.6495	.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	.0355	.0251	.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	.	.	.	.	.	.

THIS IS THE LAST PRINTED PAGE.