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KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR
FIRST YEAR, FIRST SEMESTER EXAMINATION
FOR THE CERTIFICATE IN BANKING AND FINANCE
CBF 020–BUSINESS FINANCE

Date: 18th April, 2024
Time: 8.30am-10.30am

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) ABC Limited intends to purchase a machine worth Shs. 2000,000 which will have a residue value Shs. 100,000 after 5 years useful life. The saving in cost resulting from the use of this machine are:

	Shs.
Year 1	600,000
Year 2	-
Year 3	400,000
Year 4	300,000
Year 5	150,000

Using NPV method, advise the company whether this machine should be purchased if the cut off rate is 12% and acceptable saving in cost is 14% of the cost of the investment.

(8 Marks)

- b) When choosing a Source of Finance, we consider various factors like Amount of money needed. Discuss 4 sources of finance (8 Marks)
- c) Microfinance is a term for financial services that are offered to individuals of lower socioeconomic backgrounds or those who lack access to traditional financial services. Explain 4 roles of microfinance institutions (8 Marks)
- d) Ratio analysis is a helpful tool to determine from the outside what is going on inside of a business Discuss 4 uses of ratio Analysis (6 Marks)

QUESTION TWO (20 MARKS)

- a) Management involves overseeing all aspects of a business, from finance and operations to marketing and human resources. Discuss 3 Levels of Management (6 Marks)
- b) financial institution is a company engaged in the business of dealing with financial and monetary transactions Explain 4 forms of financial institution citing an example for each (8 Marks)
- c) Emma will retire in 10years. This year wants to fund an amount of 200000 Ksh to become available in 10years. How much does he have to deposit into pension plan earning 7% Annually? Hence Explain what is time value of money (6 Marks)

QUESTION THREE (20 MARKS)

- a) Capital is the most important tool when it comes to bridging the gap between your production and your sales. Business finance can be used for a number of purposes
Discuss 6 Purposes of business Finance (8 Marks)
- b) Elizabeth Masango just closed a Sh.2, 000,000 business loan that is to be repaid in 3 equal end-of year repayments. The interest rate on the loan is 13%. Required Prepare a Loan Amortization Schedule (6 Marks)
- c) Discuss 3 Types of ratio Analysis and cite examples for each (6 Marks)

QUESTION FOUR (20 MARKS)

- a) Describe 4 various types of Agency Relationship and Explain the cause of conflict in each of them (8 Marks)
- b) Risk is an important element to consider when Selecting A source of Finance. Describe 6 other Factors to consider. (6 Marks)
- c) Discuss 6 importance of cost of finance (6 Marks)

QUESTION FIVE (20 MARKS)

- a) A company is a legal entity that is separate from its members discuss 4 differences between a public company and private company (8 Marks)
- b) Discuss 3 importance of time value of money (6 Marks)
- c) Investment appraisal refers to the techniques used by firms and investors primarily to determine whether an investment is profit-making or not. Elaborate 6 factors to consider when selecting an investment appraisal (6 Marks)