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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR**  
**FOR THE CERTIFICATE IN BUSINESS ADMINISTRATION**  
**CBM 020- BUSINESS FINANCE**

Date: 2<sup>ND</sup> AUGUST 2022  
Time: 8:30AM – 10:30AM

**INSTRUCTIONS TO CANDIDATES**

**ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS**

**QUESTION ONE (30 MARKS)**

- a) State and explain three managerial finance functions. (6 Marks)
- b) Explain the advantages of using Ordinary share capital as an organization. (6 Marks)
- c) ABC limited is planning to undertake a project whose cost of capital is 500,000 and a salvage value of 100,000. Its stream of income before depreciation and taxes is as follows from year one to year five is 100,000, 120,000, 140,000, 160,000 and 200,000 respectively. The tax rate is 50% and depreciation is on straight line.

**Required:**

- i) Calculate the payback period of the project. (2 Marks)
- ii) Compute the project's average rate of return (ARR). (6 Marks)
- d) Money market is a market for short term funds. State the key roles of the market. (5 Marks)
- e) Preparation of financial ratios is useful to a company because it will enable proper and informed decision making. Who are the people that are interested in the information? (5 Marks)

**QUESTION TWO (20 MARKS)**

- a) One of the local institutions recently hit the news paper headlines as having been put under receivership.
- i) Critically discuss the expected consequences of the failure and its publicity to other financial institutions in Kenya today. (10 Marks)
- ii) What Steps would you advice the government to take in order to prevent massive failure of financial institutions in Kenya? (10 Marks)

**QUESTION THREE (20 MARKS)**

- a) Discuss the FIVE classifications of ratios. (10 Marks)
- b) ABC Ltd had the following capital structure in 2019

	£
100,000 ordinary shares, £ 1 each	100,000
50,000, 8% preference shares, £ 1 each	<u>50,000</u>
	<u>150,000</u>

The market price as at December of ordinary shares was 3. Declared dividends were 10%. In the year, the total earnings were £68,000 and tax rate of 50%. Required to calculate: -

- i) Dividend per share. (2 Marks)
- ii) Dividend Yield. (2 Marks)
- iii) Dividend cover. (2 Marks)
- iv) Earnings per share. (2 Marks)
- v) Price earnings Ratio. (2 Marks)

**QUESTION FOUR (20 MARKS)**

- a) Discuss ways in which a conflict of interest will arise between shareholders and managers. (8 Marks)
- b) The capital market authority is a financial regulatory agency that monitors the activities of the capital market. Discuss the main roles of CMA. (6 Marks)
- c) Elaborate the functions of the Nairobi Stock Exchange. (6 Marks)

**QUESTION FIVE (20 MARKS)**

- a) Explain the factors to consider when selecting source of finance. (8 Marks)
- b) Discuss the limitations of the goal of profit maximization? (8 Marks)
- c) Differentiate between internal finance and external finance. (4 Marks)