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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2018/2019 ACADEMIC YEAR
CERTIFICATE IN BUSINESS ADMINISTRATION
CBM 015- BUSINESS FINANCE

Date: 13th August 2018
Time: 11.00 Am- 1.00Pm

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) A Ltd is planning to undertake a project whose cost is shs 80,000. Its stream of earnings before depreciation, interest and taxes (EBDIT) during the first year through 5 years is expected to be sh 20,000, 24,000, sh 28,000, sh 32,000 and sh 40,000. The company depreciates its fixed assets on a straight line basis and tax rate is 30%. The cash flows will be discounted at 10%

Required:

- i) Compute the project's average rate of return (ARR) (8 Marks)
ii) The Net present Value of the project (6 Marks)
b) Explain the limitations of the goal of profit maximization. (4 Marks)
c) Identify any 5 stakeholders of the firm and explain their financial objectives (6 Marks)
d) Discuss the users of financial ratios (6 Marks)

QUESTION TWO (20 MARKS)

- a) Bilha borrowed shs 1,000,000 from Kazi Bora Bank at annual compound interest of 14% on the reducing balance. The loan was payable in annual installments over 4 years. The instalments were payable at the end of each year.

Required:

- i) Prepare a loan amortization schedule showing clearly the instalment payable, interest, the principal and the balance due at the end of each year (8 Marks)
ii) Calculate the percentage of interest in second instalment (4 Marks)
b) Within business finance context, discuss the problems that might exist in the agency relationship between Shareholders and managers. (8 Marks)

QUESTION THREE (20 MARKS)

- a) Explain any four limitations of the use of ratios as a basis of financial analysis. (6 Marks)
- b) State and explain the various sources of finance for a business entity. (8 Marks)
- c) Describe the features of long term investment decisions. (6 Marks)

QUESTION FOUR (20 MARKS)

- a) Explain factors leading to failure of indigenous financial institutions in Kenya (8 Marks)
- b) Define the following terms
 - i) Perpetuity (2 Marks)
 - ii) Financial intermediaries (2 Marks)
 - iii) Shareholders wealth maximization (2 Marks)
 - iv) Business finance (2 Marks)
- c) "The finance manager spends most of his time making managerial finance decisions as opposed to routine functions". Discuss. (4 Marks)

QUESTION FIVE (20 MARKS)

- a) Explain the factors determining cost of finance (8 Marks)
- b) If, as an investor, you had a choice of daily, monthly, or quarterly compounding, which would you choose? Why? (4 Marks)
- c) An investor has a project whose projected cash inflows are as follows

Year	Cash flow
	SHS
1	10,000
2	15,000
3	8000
4	11,000
5	4,000

Required: compute the present value of this stream of cash flows given the investors discount rate is 8 % (8 Marks)