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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
FOR THE CERTIFICATE IN BANKING AND FINANCE
CBF 020: BUSINESS FINANCE

Date: 16TH AUGUST 2023

Time: 8:30AM-10:30AM

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Describe the following types of Agency Relationship and Explain the cause of conflict in each of them.
- i) Shareholders and management (2 Marks)
 - ii) Shareholders and the government (2 Marks)
 - iii) Management and auditors (2 Marks)
- b) ABC Limited intends to purchase a machine worth Shs. 2000,000 which will have a residue value Shs. 400,000 after 4 years useful life. The saving in cost resulting from the use of this machine are:

	Shs.
Year 1	700,000
Year 2	400,000
Year 3	600,000
Year 4	580,000

Using NPV method, advise the company whether this machine should be purchased if the cut off rate is 11% and acceptable saving in cost is 13% of the cost of the investment. (8 Marks)

- c) Discuss four components of cost of finance. (8 Marks)
- d) Explain four functions of insurance companies in Kenya. (8 Marks)

QUESTION TWO (20 MARKS)

- a) Discuss FOUR components of working capital management. (8 Marks)
- b) Discuss what is business finance and citing examples explain THREE types of business. (8 Marks)
- c) State FOUR importance of time value of money. (4 Marks)

QUESTION THREE (20 MARKS)

- a) Discuss FOUR factors to consider when selecting a source of finance. (8 Marks)
- b) Describe the differences between public company and private companies. (8 Marks)
- c) Highlight FOUR uses of ratio analysis (4 Marks)

QUESTION FOUR (20 MARKS)

- a) Discuss FOUR factors that influence investment decision. (8 Marks)
- b) Assume that you have just invested Ksh100, 000. The investment is expected to earn interest at a rate of 20% compounded annually. Determine the future value of the investment after 3 years. (4 Marks)
- c) Explain FOUR roles micro finance institution in Kenya. (8 Marks)

QUESTION FIVE (20 MARKS)

- a) State FOUR advantages of using Net present value in investment analysis. (4 Marks)
- b) Discuss FOUR importance of business finance. (8 Marks)
- c) Discuss FIVE advantages of working capital management. (8 Marks)