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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2020/2021 ACADEMIC YEAR
FOR THE CERTIFICATE IN BUSINESS MANAGEMENT
CBM 020 - BUSINESS FINANCE

Date: 14th December, 2020.
Time: 8.30am – 10.30am

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) An investor is thinking of investing in Mwela Holdings and he has two options, the claim on debt and claim on equity. Compare the two options and advise the investor on which option is best giving reasons. (8 Marks)
- b) 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? (6 Marks)
- c) KWUST Ltd is planning to undertake a project whose cost is Kshs 800,000 and Nil scrap value. Its stream of earnings before depreciation, interest and taxes (EBDIT) during the first year through 5 years is expected to be sh 200,000, Sh 240,000, sh 280,000, sh 320,000 and sh 400,000. 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). (6 Marks)
- ii) The Net Present Value of the project. (4 Marks)
- d) Discuss the financial goal of a business enterprise. (6 Marks)

QUESTION TWO (20 MARKS)

- a) Discuss the main financial goals of a business entity. (4 Marks)
- b) Differentiate the following terms
- i) Primary market and secondary market. (2 Marks)
- ii) An operating lease and a finance lease. (2 Marks)
- iii) Internal finance and external finance. (2 Marks)
- iv) Commercial banks and non-banking institutions. (2 Marks)
- c) Explain the factors to consider when selecting source of finance. (8 Marks)

QUESTION THREE (20 MARKS)

- a) What are some of the limitations of the goal of profit maximization? (8 Marks)
- b) Write short notes on the following;
 - i) Capital Markets. (3Marks)
 - ii) Money Markets. (3Marks)
- c) Explain limitations of financial ratios. (6Marks)

QUESTION FOUR (20 MARKS)

- a) Discuss the various measures that would minimize agency problems between the shareholders (owners) and the managers. (8Marks)
- b) Discuss the main functions of commercial banks in Kenya. (6Marks)
- c) Explain reasons why financial institutions are highly regulated. (6Marks)

QUESTION FIVE (20 MARKS)

One of the local financial institutions recently hit the newspaper headlines as having been put under receivership.

- a) Critically discuss the expected consequences of this failure and its publicity to the other local financial institutions. (10 Marks)
- b) Advise on the steps to be taken by the government in order to prevent massive failures of financial institutions in Kenya. (10 Marks)