



Kasarani Campus

Off Thika Road  
Tel. 2042692 / 3

P.O. Box 49274, 00100

NAIROBI

Westlands Campus  
Pamstech House  
Woodvale Grove  
Tel. 4442212  
Fax: 4444175

**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY  
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR  
FOR THE CERTIFICATE IN PROCUREMENT AND SUPPLY CHAIN  
MANAGEMENT  
CPS 020: BUSINESS FINANCE**

Date: 16<sup>TH</sup> 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:

	<b>Shs.</b>
<b>Year 1</b>	700,000
<b>Year 2</b>	400,000
<b>Year 3</b>	600,000
<b>Year 4</b>	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)