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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR**  
**FIRST YEAR, FIRST SEMESTER EXAMINATION**  
**FOR THE CERIFICATE IN BUSINESS MANAGEMENT**  
**CBM 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:
- |        | 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 (20MARKS)

- a) Discuss four components of working capital management (8 Marks)
- b) Discuss what is business finance and citing examples explain 3 types of business (8Marks)
- c) State four importance of time value of money (4 Marks)

QUESTION THREE (20 MARKS)

- a) Discuss 4 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 (20MARKS)**

- 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 (8Marks)

**QUESTION FIVE (20MARKS)**

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