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KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR
FIRST YEAR, FIRST SEMESTER EXAMINATION
FOR THE CERTIFICATE IN BANKING AND FINANCE

Date: 14th August, 2024
Time: 8.30am –10.30am

CBF 020 BUSINESS FINANCE

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

EcoTech Solutions, a company specializing in sustainable technology solutions, was founded in 2010 by two environmental engineers, John and Mary. Their mission is to develop innovative products that help businesses reduce their carbon footprint. EcoTech started with a small workshop and a handful of employees, focusing on solar-powered devices and energy-efficient lighting systems. In 2023, EcoTech Solutions Company is planning to enter international markets. They need significant investment to establish distribution networks and comply with different countries regulations. They are considering raising capital through an initial public offering (IPO) to fund this ambitious expansion. In Relation to above Case Study discuss the following

- a) Define what is business Finance and discuss objectives of an Echo Tech Solutions (6 Marks)
- b) Describe 4 various sources of finance EcoTech Solutions (8 Marks)
- c) Explain 4 importance of Investment Decision at EcoTech Solution (8 Marks)
- d) Rodgers Masango just closed a Sh.600,000, 000 business loan that is to be repaid in 4equal end-of year repayments. The interest rate on the loan is 10%. Assume payment is to be rendered annually, Prepare an amortization schedule for the loan, (8 Marks)

QUESTION TWO (20 MARKS)

- a) Describe 4 various types of Agency Relationship and Explain the cause of conflict in each of them (8 Marks)
- b) Elaborate 3 factors to consider when selecting a source of finance (6 Marks)
- c) Describe 3 types of ratios used in the organization (6 Marks)

QUESTION THREE (20 MARKS)

- a) Discuss the different types of costs of finance and explain how each type impacts a company's financial decision-making. (8 Marks)
- b) Esnas will retire 25 years. This year wants to fund an amount of 20000 Ksh to become available in 25years. How much does he have to deposit into pension plan earning 10% Annually? (4 Marks)
- c) Highlight 4 roles of Central banks toward the economy of Kenya (8 Marks)

QUESTION FOUR (20 MARKS)

- a) XYZ limited intends to purchase a machine worth Shs. 2000,000 which will have a residue value Shs. 200,000 after 5 years' useful life. The saving in cost resulting from the use of this machine are:

	Shs.
Year 1	600,000
Year 2	350,000
Year 3	200,000
Year 4	680,000
Year 5	775,000

Using NPV method, advise the company whether this machine should be purchased if the cut off rate is 14% and acceptable saving in cost is 12% of the cost of the investment. (8 Marks)

- b) Describe 4 importance of time value of money (8 Marks)
- c) Discuss 4 importance of cost of finance (4 Marks)

QUESTION FIVE (20 MARKS)

- a) Explain the key functions of insurance companies and discuss how these functions contribute to the stability and growth of the economy. (8 Marks)
- b) State 4 advantages of using Payback period in investment analysis (6 Marks)
- c) Identify and explain the 3 key limitations of ratio analysis as a tool for financial analysis and decision-making. (6 Marks)