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, 2024/2025 ACADEMIC YEAR
FIRST YEAR, SECOND SEMESTER EXAMINATION
FOR THE CERTIFICATE IN BUSINESS MANAGEMENT
CBM 020: BUSINESS FINANCE

Date: 6TH DECEMBER 2024
Time: 8:30AM – 10:30AM

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

a) Business entities usually strive to achieve their objectives. Apart from profit maximization, explain any other FOUR objectives of a business entity. (8 Marks)

b) Highlight four limitations of ratio analysis in measuring the performance of a business. (5 Marks)

c) Mary received a lump sum pension amounting to Ksh 5,000,000. She is considering investing the amount in either of the following options;

Option 1

Invest in a bank paying interest at the rate of 12% per annum compounded annually

Option 2

Invest in a bond pay interest at the rate of 14% per annum compounded semi annually

i) Determine the amount that will be in her account at the end of 5 years under each option. (5 Marks)

ii) The interest earned under each option. (2 Marks)

iii) Based on the results above which option should Mary select. (2 Marks)

d) List five sources of business finance available to a sole proprietorship (5 Marks)

e) List any three capital budgeting techniques that a business can use (3 Marks)

QUESTION TWO (20 MARKS)

a) Explain five differences between equity finance and debt finance. (10 Marks)

b) Ketsa Limited intends to borrow Ksh 4,000,000 to finance either project X or project Y. The following are the expected net cash inflows for each project;

Net Cash Inflows

Year	Project X	Project Y
1	1,500,000	2,000,000
2	1,000,000	1,100,000
3	2,400,000	9,000,000
4	1,200,000	1,500,000

i) Calculate the payback period of each project (8 Marks)

ii) Advice the management of which project to undertake (2 Marks)

QUESTION THREE (20 MARKS)

a) Explain five differences between commercial banks and non-financial institutions (10 Marks)

b) The following is the capital structure of Mwihoko Limited as on 31st December 2023

Particulars	***Amount***
Equity shares: 20,000 shares@ Ksh 100	2,000,000
10% preference shares @ Ksh 100	800,000
12% debentures	1,200,000

The market price of the company's share is Ksh 110 and it is expected that a dividend of Ksh 10 per share would be declared after one year. The dividend growth rate is 6% and the corporation tax rate is 30%

Required:

i) The cost of finance of each component of the capital structure. (6 Marks)

ii) The Weighted Average Cost of Capital. (4 Marks)

QUESTION FOUR (20 MARKS)

a) List five differences between ordinary shares and preference shares. (10 Marks)

b) Consider a four year project whose initial capital outlay is Ksh 200,000 with no salvage value. The project is expected to generate the following cash inflows

Year	***Cash Inflow***
1	20,000
2	30,000
3	40,000
4	50,000

The cost of capital is 10%

Required:

i) Calculate the Net Present Value of the project (6 Marks)

ii) Advise whether the project should be accepted or not (2 Marks)

iii) List two advantages of Net Present Value (2 Marks)

QUESTION FIVE (20 MARKS)

a) Highlight any five emerging trends of business finance in Kenya (10 Marks)

b) Praise borrowed a loan amounting to Ksh 2,000,000 from a bank that is to be repaid in 6 equal annual installments. The interest rate of the loan is 12% per annum. Prepare Mary's loan amortization schedule (10 Marks)