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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR**  
**FIRST YEAR, FIRST SEMESTER EXAMINATION**  
**FOR THE CERTIFICATE IN BUSINESS MANAGEMENT**  
**CBM 020 BUSINESS FINANCE**

Date: 14<sup>TH</sup> AUGUST 2024

Time: 8:30AM – 10:30AM

**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;*

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

**QUESTION TWO (20 MARKS)**

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

**QUESTION THREE (20 MARKS)**

- Discuss the different types of costs of finance and explain how each type impacts a company's financial decision-making. (8 Marks)
- Esnas will retire 25 years. This year wants to fund an amount of 20000 Ksh to become available in 25 years. How much does he have to deposit into pension plan earning 10% Annually? (4 Marks)
- Highlight FOUR 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.
<b>Year 1</b>	<b>600,000</b>
<b>Year 2</b>	<b>350,000</b>
<b>Year 3</b>	<b>200,000</b>
<b>Year 4</b>	<b>680,000</b>
<b>Year 5</b>	<b>775,000</b>

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 FOUR importance of time value of money. (8 Marks)
- c) Discuss FOUR 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 FOUR advantages of using Payback period in investment analysis. (6 Marks)
- c) Identify and explain the THREE key limitations of ratio analysis as a tool for financial analysis and decision-making. (6 Marks)