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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 BANKING AND FINANCE**

Date: 6th December, 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)

- 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

Year	Net Cash Inflows	
	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

- f) Calculate the payback period of each project (8 marks)
- g) Advise 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)