



(University of Choice)

**MASINDE MULIRO UNIVERSITY OF
SCIENCE AND TECHNOLOGY
(MMUST)**

**MAIN, BUNGOMA, MUMIAS, BUSIA, NAIROBI, WEBUYE CAMPUS
UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR
FIRST YEAR SEMESTER TWO MAIN EXAMINATION
FOR CERTIFICATE**

**IN
BUSINESS MANAGEMENT**

COURSE CODE: CBF 105

COURSE TITLE: FUNDAMENTALS OF FINANCE

DATE: Wednesday 20TH APRIL 2022

TIME: 12-2PM

INSTRUCTIONS TO CANDIDATES

Answer QUESTION ONE and any OTHER TWO questions

MMUST observes ZERO tolerance to examination cheating ▲

TIME: 2 Hours

SECTION A: COMPULSORY

QUESTION ONE (30 MARKS)

- a) Nairobi securities play a very important role in development of the Kenyan economy. Discuss specific 6 roles that NSE plays in our economy (6 marks)
- b) Define the following terms as used in finance (2marks each)
- i. Financial markets
 - ii. Commercial papers
 - iii. Secondary markets
 - iv. Primary markets
- c) A firm deposits ksh. 50,000 at the end of each year for 4 years at the rate of 6% interest and compounding is done on quarterly basis. What is the compound value at the end of the 4th year? (8 marks)
- d) The current Kenyan government has resorted to loans in funding its activities, majorly capital projects like the standard gauge railway. As a scholar in the field of finance, explain four demerits of loans as a source of finance(8 marks)

SECTION B: CHOOSE ANY TWO QUESTION

QUESTION TWO (20 MARKS)

- a. Discuss five functions of commercial banks (10 marks)
- b. Find the present value of kshs. 1000 to be received in 10 years if the discounting rate is 8% per annum (4 marks)
- c. Define capital market and highlight at least four instruments used in capital market (6 marks)

QUESTION THREE (20 MARKS)

- a) Outline four points of dissimilarities between ordinary shares and preference shares as a source of capital in a company (8 marks)
- b) The philosophy of time value of money opines that a shilling today is more worthwhile than a shilling tomorrow. Explain four reasons behind this. (8 marks)
- c) Discuss the two major financial goals of a firm (4 marks)

QUESTION FOUR (20 MARKS)

- a. Discuss five sources of government revenue (10 marks)
- b. An initial investment of Sh.2, 324,000 is expected to generate Sh.600, 000 per year for 6 years. Calculate the discounted payback period of the investment if the discount rate is 11%.(10 marks)

QUESTION FIVE

- a) Explain five roles of central Bank of Kenya (10 marks)
- b) Define the term budget and briefly state the importance of preparation of a budget to an organization (10marks)