# TECHNICAL UNIVERSITY OF MOMBASA

School of Business

Department of Accounting & Finance

## UNIVERSITY EXAMINATION FOR:

BACHELOR OF SCIENCE IN MATHEMATICS AND FINANCE

BFI 4150: PRINCIPLES OF FINANCE

END OF SEMESTER EXAMINATION

**SERIES:** DECEMBER 2024

**TIME:** 2 HOURS

**DATE:** Pick Date Dec2024

**Instructions to Candidates**

You should have the following for this examination

-*Answer Booklet, examination pass and student ID*

This paper consists of **FIVE** questions. Attempt question ONE (Compulsory) and any other TWO questions.

**Do not write on the question paper.**

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**Question ONE**

a) What is meant by the "cost of capital" What is the significance of cost of capital in Principles of Finance? (9 Marks)

b) Differentiate a financial lease from an operating lease (5 Marks).

c) A company is considering investing in two projects A and B. The following are the cash inflows of the projects and costs:

| Year | Project A (Sh) | Project B (Sh) |
|---|---|---|
| 0 | (46,000) | (46,000) |
| 1. | 26,500 | 24,500 |

| | | |
|---|---|---|
| 2. | 19,500 | 12,500 |
| 3. | 23,500 | 18,000 |
| 4. | 1,500 | 13,000 |
| Estimated Scrap value | 16,000 | 32,000 |

Required: Evaluate the two alternatives using the following:

a) Payback method (4 Marks)
b) Rate of return on investment method, and (4 Marks)
c) Net present value method. (6 Marks)

***N/B: You should use a discount rate of 8%.***

**Question TWO**

a) Distinguish between long-term, medium –term, and short-term finance and give two (2) examples of each type of financing. (12 Marks)
b) Debtors are a crucial unit in business. Elaborate vividly on costs associated with management of debt. (8 Marks)

**Question THREE**

a) Financial institutions if left to operate freely may create an unconducive business environment and thus Central Bank of Kenya is tasked with a duty of regulating them. Apart from this duty, highlight other 6 functions of Central Bank of Kenya. (12 Marks)
b) Define Time Value of Money (TVM) and highlight three applications of TMV concept in Business. (8 Marks).

**Question FOUR**

a) What's ratio analysis? Discuss the limitations of ratios as a mode of financial statements analysis. (10 Marks)
b) Define Finance and highlight its applications in the business environment. (10Marks)

**Question FIVE**

Financial Robotics is quickly taking over finance in a variety of ways that are saving the industry millions and automating time-consuming tasks. Discuss the emerging trends in the field of finance. (20 Marks)