



# **GRETSA UNIVERSITY - THIKA**

## **UNIVERSITY EXAMINATIONS JANUARY-APRIL 2025 SEMESTER**

### **DIPLOMA IN BUSINESS**

**COURSE CODE: DBFI 020**

**COURSE TITLE: PRINCIPLES OF FINANCE**

**DATE: 3 APRIL 2025**

**TIME: 2.00 AM – 4.00 PM**

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#### **INSTRUCTIONS TO CANDIDATES**

1. SECTION A IS **COMPULSORY**.
2. SECTION B: ANSWER ANY OTHER **TWO** QUESTIONS.
3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

**CAUTION:** *All exam rooms are under CCTV surveillance during the examination period.*

## SECTION A: COMPULSORY

### Question One

- a) Define the following terms:
- i). Asset [2 marks]
  - ii). Business [2 marks]
  - iii). Entrepreneurship [2 marks]
  - iv). Investment [2 marks]
  - v). Mortgage [2 marks]
- b) Mr. Jaba wants to understand what finance is and the divisional disciplines that finance is applied. With your knowledge of finance, help Mr. Jaba to understand this. [10 marks]
- c) Identify and describe any five sources of finance. [10 marks]

## SECTION B: ANSWER ANY TWO QUESTIONS

### Question Two

- a) Discuss any five functions of financial markets. [10 marks]
- b) According to CAPM model, the required rate of return will be highly influenced by the Beta factor of each investment. Calculate the cost of finance of an investment with the following; Interest rate = 15%, Market rate/average rate = 11%, Beta factor = 50. [10 marks]

### Question three

- a) Capital structure is how a firm finances its overall operations and growth by using different sources of funds. Explain five factors affecting capital structure. [10 marks]
- b) Calculate the NPV and comment on investment decision of a project with the following; Cost of investment = 100,000/=, interest rate = 10%, inflows (year 1 = 70,000, year 2 = 50,000 and year 3 = 20,000). [10 marks]

### Question Four

- a) Various theories have been developed to explain why dividends are paid and to determine the relevance of dividend payment. Highlight any four dividend payment theories. [4 marks]
- b) Describe the three types of market efficiency. [6 marks]

- c) Explain any five types of relationship in the agency theory. **[10 marks]**

**Question five**

- a) The following information was from XYZ feasibility studies of two ventures:

**Venture A;** Cost 100,000/= and 160,000/= at the beginning of the 4<sup>th</sup> year and it will generate inflows 1-3<sup>rd</sup> year 80,000/= and from 4-6<sup>th</sup> year 50,000/= per annum.

**Venture B;** Initial cost 200,000/= and 80,000/= at the beginning of the 4<sup>th</sup> year and it will generate the following inflows:

1<sup>st</sup> – 2<sup>nd</sup> year -> Shs.100,000 per annum

3<sup>rd</sup> – 6<sup>th</sup> year -> Shs.70,000 per annum

Using the cost of finance of 12%, compute the profitability index of these two ventures.

**[12 marks]**

- b) Explain any four financial goals of a firm. **[8 marks]**