



# MACHAKOS UNIVERSITY COLLEGE

(A Constituent College of Kenyatta University)  
University Examinations for 2015/2016 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT  
SCIENCES

..... SEMESTER EXAMINATION DIPLOMA IN ACCOUNTANCY

BUSINESS FINANCE

Date:

Time:

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## INSTRUCTIONS

*Answer all the questions*

1. State and explain five functions of Central Bank (20 marks)
2. a) What is a share? (5 marks)  
b) State and explain five difference between preferences shares and debentures. (15 marks)
3. a) Distinguish between revenue reserve and capital reserve (5 marks)  
b) State and explain five advantages of retained earnings as a source of finance to a company. (15 marks)
4. A company ABC contemplates to raise debt finance totaling sh.1, 000,000. It will be Required to pay an annual interest of 10%. This money will be invested in one of the Following project A or B, which will generate the following cash inflows:

Period	Project A	Project B
1	300,000	600,000
2	100,000	500,000
3	400,000	400,000
4	500,000	300,000
5	600,000	100,000

**Required:-**

- a) Using the NPV method advise the Management accordingly as to which of the two projects would be viable and why. (10 marks)
  - b) Using payback period (P & P) method, which of the two projects should the company invest in? (5 marks)
  - c) Evaluate the above project using the profitability index (5 marks)
5. Stock exchange plays important Roles in economic development of Kenya. List and explain 5 functions of stock exchange (20 marks)