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TOPICALLY ARRANGED

Updated With
April 2026
Past Paper with Answers

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PART A

PAST EXAMINATION QUESTIONS

TOPIC 4

TIME-VALUE OF MONEY

QUESTION 1

April 2026 Question One D

(i) Explain TWO reasons why an individual would prefer to receive a specific sum of money today rather than the same amount at a future date. (2 marks)

(ii) An investor plans to save for a child's education by depositing equal annual amounts into a savings account at the end of each year for the next eight years. The target sum is Sh.4,000,000 and the account earns compound interest at 12% per annum.

Required:

Calculate the annual deposit required to achieve the target amount. (4 marks)

QUESTION 2

April 2026 Question Four C

Pandora Ltd. issued a 14% coupon bond with a face value of Sh. 1,000 and twelve years to maturity. The current market required rate of return for similar bonds is 10%.

Required:

Determine the value of the bond assuming that interest is paid semi-annually. (4 marks)

QUESTION 3

December 2025 Question Two A

Thomas Atego borrowed Sh.5,000,000 from Axim Bank at an interest rate of 14% per annum. The loan is to be repaid semi-annually over a period of 3 years. The interest on the loan is to be repaid on a reducing balance basis.

Required:

(iii) The amount of each semi-annual instalment payable for the loan. (2 marks)

(iv) A loan amortisation schedule. (4 marks)

QUESTION 4

December 2025 Question Four B

Hamza Ltd. issued a bond worth Sh.2,500,000. The company established a sinking fund to retire this debt in three years and made deposits into it at the end of every six months.

PART B

SUGGESTED ANSWERS AND SOLUTIONS

TOPIC 4

TIME-VALUE OF MONEY

QUESTION 1

April 2026 Question One D

(i) Reasons why an individual would prefer to receive a specific sum of money today

- **Investment opportunity:** Money received today can be invested to earn interest or returns resulting in a larger amount in the future.
- **Uncertainty / risk:** Future receipts may not be received due to default, inflation or other unforeseen circumstances. Therefore, people prefer the certainty of current cash. Inflation may also be accepted as a reason because it reduces the purchasing power in the future.

(ii) Annual deposit required

$FV = A\frac{(1+r)^n-1}{r}$

$= 4{,}000{,}000 = A\frac{(1.2)^8-1}{0.12}$

$A = \frac{4{,}000{,}000}{12.299693}$ = Sh. 325,211.3655

A = Sh. 325,211.3655

QUESTION 2

April 2026 Question Four C

Bond value

$P = c\left(\frac{1-(1+r)^{-n}}{r}\right) + \frac{Fv}{1+r^n}$

$C = \frac{14\% \times 1000}{2} = 70$

$P = 70\left(\frac{1-(1.05)^{-12\times2}}{0.05}\right) + \frac{1000}{1.05^{24}}$

P = (70 × 13.7986) + 310.07

P = 965.902 + 310.07

= Sh. 1275.972 ≅ 1,275. 97

QUESTION 3

December 2025 Question Two A

Thomas Atego

(i) The amount of each semi-annual instalment payable for the loan.

$\frac{Loan\ Amount}{PVIFA\left(\frac{r\%}{2}\right) n \times 2}$ $\frac{r}{2} = \frac{14}{2} = 7\% = 0.07,\ n = 3 \times 2 = 6$

$$\frac{5{,}000{,}000}{\frac{1 - (0.07)^{-6}}{0.07}}$$

$$= \frac{5{,}000{,}000}{4.76653966} = \text{Sh. } 1{,}048{,}978.999$$

(ii) A loan amortisation schedule.

Period	Loan Amount at Start (a)	Interest @ 7% (b)	Annual Repayment (c)	Principal Repaid (d = c - b)	Balance at End (e = a - d)
1	5,000,000	350,000	(1,048,978.999)	698,978.999	4,301,021.001
2	4,301,021.001	301,071.4701	(1,048,978.999)	747,907.5289	3,553,113.472
3	3,553,113.472	248,717.943	(1,048,978.999)	800,261.056	2,752,852.416
4	2,752,852.416	192,699.6691	(1,048,978.999)	856,279.3299	1,896,573.086
5	1,896,573.086	132,760.116	(1,048,978.999)	916,218.883	980,354.203
6	980,354.203	68,624.7942	(1,048,978.999)	980,354.2048	0

QUESTION 4

December 2025 Question Four B

Hamza Ltd.

Periodic payments to be deposited in the sinking fund.

Formular

$$P = \frac{F.\frac{r}{n}}{\left(1+\frac{r}{n}\right)^{nt} - 1}$$

P = Is the periodic payment

F = Face value

r = Interest rate per period = $\frac{7}{2}$ = 3.5%

n = Number of compounding periods per year (2 for semi annually)

t = Number of years

$$P = \frac{2{,}500{,}000 \times \frac{0.07}{2}}{\left(1+\frac{0.07}{2}\right)^{2\times3} - 1} = \frac{2{,}500{,}000 \times 0.035}{(1+0.035)^{6} - 1}$$

P = $\frac{87,500}{1.229255326-1}$ = 381,670.5217

QUESTION 5

August 2025 Question Two C

Advice on the payment option to select.

Option A

Present value (P_v) = A$(1+r)^{-n}$

= 25,800,000 × $PVIF_{8\%5}$

= Sh. 25,800,000 × 0.6806

Sh. 17, 559, 480

Option B

Present value 5.5 after year 1 = 5, 500, 000 × 0.9259 = Sh.5, 092, 450

P_v = of 5.5M after 2 years = 5, 500, 000 × 0.8573 = Sh. 4,715,150

Total PV = 5,000,000 + 5,092,450 + 4,715,150

= Sh. 14, 807, 600

Option C

PV of annuity = Sh. 1,400,000 × PVIFA8%, 30

= 1,400,000 × 11.2578 = Sh. 15, 760, 920

Option D

PV of perpetuity = $\frac{Payment}{rate}$ = $\frac{Sh.\ 1,380,000}{0.08}$ = Sh. 17, 250, 000

Advice:

Choose option A, since it yields the highest PV of Sh. 17, 559, 480

QUESTION 6

August 2024 Question Two B

(i) Samuel Mwongeka

The accumulated value of investment after ten years.

Amount = Sh. 200,000

r = 9% p.a

n = 10 years

FV = $A\left(\frac{(1+r)^n-1}{r}\right) \times (1+r)$

= $200{,}000\left(\frac{(1.09)^{10}-1}{0.09}\right) \times 1.09$

= 3,038,585.944×1.09 = Sh. 3,312,058.678

(ii) The present value of Sh.1.2 million annuity payable for 20 years at an interest rate of 8% per annum.

A = Sh. 1,200,000

n = 20 years

r = 8% p.a

PV = A + $A\left(\frac{1-(1+r)^{n-1}}{r}\right)$

= 1,200,000 + $1{,}200{,}000\left(\frac{1-(1.08)^{19}}{0.08}\right)$

= Sh. 12,724,319

OR

PV = $A\left(\frac{1-(1+r)^{-n}}{r}\right)$

= $1{,}200{,}000\left(\frac{1-(1.08)^{-20}}{\frac{0.08}{1{,}08}}\right)$

= Sh. 12,724,319

QUESTION 7

April 2024 Question Four C

(i) Loan repayment schedule.

Annual loan payment = $\frac{loan\ amount}{PVIFA_{14\%8}}$

Annual repayment = $\frac{30{,}000{,}000}{4.638863894} = Sh.\,6{,}467{,}100.714$

Year	Amount @start	Interest@ 14%	Repayment	Principal paid	Amount @end
1	30,000,000	4,200,000	6,467,100.714	2,267,100.714	27,732,899.29
2	27,732,899.29	3,882,605.9	6,467,100.714	2,584,494.814	25,148,404.48
3	25,148,404.	3,520,776.	6,467,100.	2,946,324.	22,202,080.39