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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY

UNIVERSITY EXAMINATION, 2024/2025ACADEMIC YEAR
FOURTH YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(MATHEMATICS AND COMPUTER SCIENCE)

Date: 12th April, 2024
Time: 11.30am –1.30pm

KBA 001 - INTRODUCTION TO FINANCIAL MANAGEMENT

INSTRUCTIONS TO CANDIDATES

ANSWER **QUESTION ONE (COMPULSORY)** AND **ANY OTHER TWO** QUESTIONS

QUESTION ONE (30 MARKS)

Case Study

OPERATING ENVIRONMENT, VALUE CREATION AND FIRM FINANCING

Mint Holdings Limited is a leading manufacturing company in industrial area, Nairobi, Kenya. The Company has employed you as a Finance Manager to develop a finance policy framework and to equally manage an expansion programme that seeks to open 5 new branches in Eastern Kenya and West Africa. You take office when the firms fixed assets (especially Buildings) are so poorly managed. The financial management policy is not so updated: it is actually outdated and not being implemented accordingly! Shareholders are often experiencing agency problems with management and the external auditor. Your responsibility is to put in place a proper finance policy and improve the implementation of corporate governance systems. The Company's expansion programme sounds good though finances are limited. Besides opening up 5 branches, the Company is considering purchase of specialized equipment to boost production capacity in addition to purchase of 3 delivery Vans. The need for borrowing prompts a leading commercial bank to approach you for a loan of sh. 20,000,000 which the bank expects to be settled within 3 years. Several commercial banks have been struggling with major liquidity problems, scarcity of the US dollar and moral hazards relating to high non-performing loans due to several borrowers who do not pay up! The company has some few alternative sources of income (such as rent and transport income) besides the manufacture and sale of soap (which is the main business activity).
(Note: this case study is developed purely for academic purposes)

In view of the case study above, you are required to:

a) Explain shareholder value creation as one of the principles of Mint Holdings Limited Company.
(6 marks)

b) Describe three internal controls you will adopt to manage the firm's Buildings.
(6 marks)

c) Describe three systematic risks which are bound to affect Mint Holdings Limited Company as it considers expansion into foreign countries (6 marks)

d) Explain three actions that Central Bank of Kenya (CBK) could pursue to stabilize the Commercial banks which are facing financial challenges as per the case study. (6 marks)

e) Discuss capital rationing in the context of Mint Holdings Limited Company's plan on capital investments (6 marks)

QUESTION TWO (20 MARKS)

a) Fig Tree Holdings Limited has secured financing for sh. 100,000,000 to invest in real estate. The Directors of the company are keen on buying land, buying cheap stand-alone rental houses and buying a bungalow (for rental). Out of the 3 possible investments, they have settled on a portfolio of land and a rentals- 30% of their investment will go into land. Consider the financial information below:

Probability	**Rentals (R)**	**Land (L)**	**Market(m)**
0.50	10%	15%	20%
0.30	16%	10%	10%
0.20	7%	(3%)	6%

Required:

i) Compute the expected returns for Rentals and Land (6 marks)

ii) Compute the standard deviation for Rentals and advise accordingly (6 marks)

b) Describe four characteristics of the informal finance sector in a developing economy such as Kenya taking into account its unstructured form (8 marks)

QUESTION THREE (20 MARKS)

a) You have been appointed the Finance Manager of a leading exporter of flowers to Italy and Ireland. It immediately comes to your attention that the Company is evaluating the 3 year Capital investment as captured below:

Initial outlay/investment- sh. 5,500,000
Annual income from the project- sh. 4,200,000
Annual operating costs for the project- sh. 1,200,000
Taxation rate applicable to income- 30%
Terminal value-sh. 300,000
Minimum required rate of return on the project-10%
Ignore inflation and its potential impact on cashflows!

Required;

i) Evaluate the relevant cash flows and determine the viability of the project using Net Present Value (NPV) and advise the Board of Directors (12 marks)

ii) Compute the Profitability Index (PI) and advise accordingly (2 marks)

b) Explain the scope of public finance in Kenya taking into account the National Government and the County Governments (6 marks)

QUESTION FOUR (20 MARKS)

a) XY Limited Corporate Bonds pay annual interest as captured below. The annual Bond prices and interest payments are shown below

Year	Interest	Bond Prices
1	Sh.5.50	sh. 100
2	Sh.6.00	95
3	Sh.6.15	105
4	Sh.7.30	100
5	Sh.7.00	94

Using the market model, compute Bond returns for year 2 to year 5 (8 marks)

b) Using appropriate examples, distinguish between a primary market and a secondary market for financing (6 marks)

c) Describe three reasons why it is important for a University to employ a Finance Manager (6 marks)

QUESTION FIVE(20 MARKS)

a) Compute the present value of a savings which pays 7% per annual interest and promises sh. 150,000 today, sh. 200,000 in three years and sh. 250,000 in four years (8 marks)

b) Discuss three key activities that define personal finance. (6 marks)

c) Describe three functions of commercial banks in Kenya. (6 marks)