



Kasarani Campus
Off Thika Road
Tel. 2042692 / 3
P. O. Box 49274, 00100
NAIROBI
Westlands Campus
Pamstech House
Woodvale Grove
Tel. 4442212
Fax: 4444175

KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2019/2020 ACADEMIC YEAR
THIRD YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 6th December, 2019
Time: 11.00am – 1.00pm

KFI 300 – CORPORATE FINANCIAL PLANNING AND STRATEGY

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) If a project has the initial cost of Ksh.150, 000 and a book value of Ksh.20, 000 at the end of 5 years and the profit after. Depreciation is on straight line method. Assume with 10% discount factor
- Yr1 35,000
Yr2 50,000
Yr3 60,000
Yr4 70,000
Yr5 80,000
- Calculate the NPV of the project and make decision whether it should be accepted or rejected.
- (10 Marks)
- b) Adequate working capital is very necessary for maintenance of liquidity and for running the business smoothly and efficiently. However, the amount of working capital required varies from business to business and from period to period. Explain the factors that influence such requirement
- (8 Marks)
- c) Explain the advantages of capital rationing
- (4 Marks)
- d) The purpose of corporate planning is to improve strategic decision-making in the organization so that resources and talents or skills are applied to the most profitable uses. Discuss the at least four objectives of corporate planning.
- (8 Marks)

QUESTION TWO (20 MARKS)

- a) The dividend to be paid to equity shareholders is the real issue involved in dividend decision by the management of any company. Analyze the factors that guide decision on payment of dividends. (10 Marks)
- b) Discuss the stages of corporate life cycle. (10 Marks)

QUESTION THREE (20 MARKS)

- a) The choice of an appropriate capital structure becomes a very important decision for the finance manager of any company. Analyze the factors that should be kept in view while deciding on the choice of an appropriate capital structure. (10 Marks)
- b) Discuss the theory of Modigalini and Miller as used to determine the value of a firm (10 Marks)

QUESTION FOUR (20 MARKS)

- a) Distinguish between shareholders and debenture holders. (10 Marks)
- b) Analyze the conditions necessary for financial restructuring. (10 Marks)

QUESTION FIVE (20 MARKS)

A cash flow statement involves only short-term financial position of the business concern. Cash flow statement provides a summary of operating, investment and financing cash flows and reconciles them with changes in its cash and cash equivalents such as marketable securities. The following Prime Company Limited statement of financial position is as below;

**PRIME CO. LTD
STATEMENT OF FINANCIAL
POSITION
AS AT 31ST MARCH 2017**

	Frw'000'
NON CURRENT ASSETS	
Motor vans	1460
Freehold property	75,000
Investments	<u>6,750</u>
	83,210
CURRENT ASSETS:	
Stock	16,700
Debtors	<u>31,000</u>
	<u>130,910</u>

EQUITY & LIABILITIES:

Equity:

Issued share
Capital 42,000

Retained earnings 31,630
73,630

Non current liabilities:

Debentures 15,000

Current liabilities:

Creditors 24,100

Provision for tax 12,700
Proposed
dividends 4,200

Bank overdraft 1,280
130,910

Required;

Calculate the following ratios

- i) Current ratio
- ii) Acid test ratio
- iii) Debt ratio
- iv) Net working capital ratio
- v) Cash ratio

(20 Marks)