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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY

UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
FIRST YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 7th December, 2023
Time: 11.30am –1.30pm

KFI 001 - INTRODUCTION TO FINANCIAL MANAGEMENT

INSTRUCTIONS TO CANDIDATES

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

QUESTION ONE (30 MARKS)

CASE STUDY

Mary, James and John opted to venture into business upon completing their Bachelors degree from a local university. They opted to name the company *Kitu Kidogo Limited* subject to approval by the Registrar of Companies though James had some misgivings and reservations about the name! Their core business would be *marketing support services, computer services and cleaning services*- this would inform the objects of the company. They engaged a fresh graduate in law (Ms. Grace), with a Bachelor of Law Degree, to do the necessary documentations for the company to be registered and incorporated eventually. However, Ms. Grace had not yet been given a practice license though she had actually graduated! Mr. John Pesa is appointed as the Company Secretary though James did not think it was important to have the position.

The three individuals would become the Directors of the company; they opted to engage Mrs. Jane Kiwanuka to become the fourth Director despite her being declared bankrupt following her failure to settle a bank loan for over five years. However, Mrs. Kiwanuka had served as a Director in several companies. After the registration process had been completed, Mr. John (one of the Directors) convinced the other Directors to venture into supply of goods to County Government X following his connections with the Governor! The company went ahead to do business with the County Government. Before long, the Directors would opt to raise capital by selling preferred stock shares at the national stock market: a Prospectus would be needed for regulatory approval. Despite starting off with capital of sh. 1,500,000, the Directors had a long-term vision of raising the capital to sh. 23,000,000 in two years!

Having read through the Case study above, you are required to answer the following questions:

a) Explain three avenues that the company's Directors could use to raise more capital through capital markets (6 marks)

b) Explain any three accounting controls that the company could adopt to safeguard buildings (6 marks)

c) Describe three benefits that the company would experience by appointing a finance manager considering it equally wants to raise more capital (6 marks)

d) Discuss potential agency problems that the company is bound to experience. (6 marks)

e) Explain how venture capital financing could be used to finance the company. (6 marks)

QUESTION TWO (20 MARKS)

a) Mary won a lottery of sh. 2,000,000 and is considering investing in a financial market with two prominent company shares/stocks (X and Y). The performance of the stocks is captured below:

	X	**Y**
Expected returns…….	17%	22%
Standard deviation….	0.15	0.56

Based on Markowitz (1952) *Portfolio Selection*, advise Mary on how best to invest her money wisely by highlighting the assumptions informing portfolio theory (6 marks)

b) Differentiate between personal finance and public finance. (6 marks)

c) Mintchoc company stocks' relevant historical data is presented below:

Year	**Dividends**	**Prices**
1	Sh.5.30	sh. 103
2	Sh.6.00	98
3	Sh.6.25	104
4	Sh.7.40	101
5	Sh.7.10	96

Required;

Using the market model, compute the returns of the stocks for year 2, 3, 4 and 5 (8 marks)

QUESTION THREE (20 MARKS)

a) Discuss three functions of Central Bank of Kenya as the regulator of banking. (6 marks)

b) Distinguish between systematic risk and unsystematic risk by citing examples. (8 marks)

c) How much will Lucy earn at the end of the fourth month if she invests sh. 150,000 today for 4 months in a savings scheme that pays investors 10% interest per annum? (6 marks)

QUESTION FOUR (20 MARKS)

a) XYZ Ltd. is considered the purchase of a Truck to boost its sales revenues following a massive expansion programme in Nairobi City County. The Truck is estimated to cost sh. 8,550,000 in purchase price and sh. 50,000 for transportation from the port of Mombasa. It will cost the firm an additional sh.15,000 to install an alarm on the Truck. It is estimated that the Truck will have a useful life of 3 years and a salvage value of sh.3,500,000 with its depreciation being calculated on a straight line basis. A working capital injection of sh. 40,000 is expected once the Truck is bought.

A driver will be employed purposely for the Truck and his salary for the 1st year of service is estimated to be sh.200,000. Purchase of the Truck will generate additional annual sales revenues of sh. 2,000,000 by the end of the first year (the revenues are expected to increase each subsequent year only due to inflation). Variable selling costs are expected to remain at sh. 700,000 annually. The cash flows are expected to be affected by inflation at a rate of 1%. The firm is in the 30% tax brackets and its investors require a return of 10%.

Required;

i) Determine the relevant cash flows and compute Net Present Value (NPV) of the Truck and advise accordingly (7 marks)

ii) Compute the Profitability Index (PI) of the Truck and advise accordingly (3 marks)

b) Describe three sources of revenue for a County government in Kenya (6 marks)

c) Evaluate two internal controls that a finance manager could adopt to manage motor vehicles of a Company (4 marks)

QUESTION FIVE(20 MARKS)

a) Describe the scope of public finance in view of the national government and the county governments especially in the context of Kenya (8 marks)

b) James needs sh. 1,250, 000 in 4 years' time to comfortably invest in a retail shop at Githurai 45. A bank has promised him an 8% return per annum if he invests into the pool. How much does he have to deposit into the bank today in order to achieve his objective in 4 years' time? (6 marks)

c) Explain the difference between a primary market and a secondary market in the context of raising finances for a business enterprise. (6 marks)