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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: 10th August, 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

Property Holdings Limited has just bought a piece of land for sh. 5,000,000 along Ngong road, Nairobi, Kenya where the car wash business seems to be thriving. The company does not seem to have any immediate use for the land. Hence, its management has found an investor who will lease the land for 3 years- the investor will pay Property Holdings Limited a monthly rental payments of sh. 30,000 over the next 3 years. The company wants a minimum return of 10% per annum from the lease of land. Land grabbing is a major concern for most land owners in Nairobi!

A Public transport company is offering Property Holdings Limited an alternative. It proposes to lease the land for 5 years at a monthly rental payment of sh. 18,000. The County government is keen on charging sh. 5,000 monthly on any land without any active utilization! The Company's Finance manager is willing to spend the sh. 5,000! The management of Property Holdings Limited is keen on value maximization from the land transaction.

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

- Explain the role of Shareholder Wealth Maximization in view of the case study. (6 marks)
- Describe three internal controls that the company could put in place to safeguard the Land against theft and misuse (6 marks)
- Describe three key roles of the finance manager of Property Holdings Limited in view of the case study above. (6 marks)
- Explain three public finance management principles that County Governments should comply with to safeguard their economic resources (6 marks)
- Discuss personal finance management at the household level clearly highlighting the key priority

areas.

(6 marks)

QUESTION TWO (20 MARKS)

- a) Ms. Mary Slay Kuin (with sh. 10,000,000 to invest in the housing sector) is considering a portfolio of two investments in real estate that is Bungalow (B) and Apartment (A). Out of her sh. 10,000,000, Mary has opted to invest sh. 3,000,000 into a Bungalow along Chai Road, Nairobi whereas the balance will be invested in the Apartment in Ngumo, off Mbagathi way, Nairobi. Details of relevant investment indicators are captured below:

| <u>Probability</u> | <u>State of nature</u> | <u>Bungalow (B)</u> | <u>Apartment (A)</u> | <u>Market Portfolio</u> |
|--------------------|------------------------|---------------------|----------------------|-------------------------|
| 0.30 | Good | 12% | 18% | 20% |
| 0.40 | Average | 9% | 11% | 12% |
| 0.30 | Bad | 4% | (5%) | 10% |

The market pays a 7% return on average risk investments in money markets e.g. Treasury Bills. In view of the information above information, you are required to compute:

- i) Expected returns of the Bungalow (B) and the Apartment (A) and advise Ms. Mary accordingly (8 marks)
- ii) Standard deviation of the Bungalow (B) and interpret the result in view of the recommendations by Markowitz (1952) on risk diversification and portfolio selection (8 marks)
- b) Describe Corporate Social Responsibility (CSR) as a goal of a business enterprise. (4 marks)

QUESTION THREE (20 MARKS)

- a) Describe two sources of business finance in view of primary financial markets. (6 marks)
- b) Explain the relationship between Finance, Economics and Accounting. (6 marks)
- c) Mint Holdings Common stocks have been paying dividends over the last 5 years. The security's prices and dividends are presented below;

| Year | Dividends | Prices |
|-------------|------------------|---------------|
| 1 | Sh.5.00 | sh. 105 |
| 2 | Sh.6.50 | 92 |
| 3 | Sh.6.10 | 108 |
| 4 | Sh.7.50 | 106 |
| 5 | Sh.7.50 | 95 |

Required:

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

(8 marks)

QUESTION FOUR (20 MARKS)

- a) Describe the scope of informal finance and the crucial role it plays in financing households and individuals. (6 marks)
- b) Banden Ltd. is a highly geared company that wishes to expand its operations. Six possible capital investments have been identified, but the company only has access to a total of sh. 100,620,000.

Expected net cash inflows (Figures are in millions/'000)

| Project | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Initial outlay |
|---------|--------|--------|--------|--------|--------|----------------|
| | Shs | Shs | Shs | shs | Shs | Shs |
| A | 70,000 | 70,000 | 70,000 | 70,000 | 70,000 | (246,000) |
| B | 75,000 | 87,000 | 64,000 | | | (180,000) |
| C | 48,000 | 48,000 | 63,000 | 73,000 | | (175,000) |
| D | 62,000 | 62,000 | 62,000 | 62,000 | | (180,000) |
| E | 40,000 | 50,000 | 60,000 | 70,000 | 40,000 | (180,000) |
| F | 35,000 | 82,000 | 82,000 | | | (150,000) |

Projects A and E are mutually exclusive. All projects are believed to be of similar risk to the company's existing capital investments. Hence, annual operating costs/variable costs for each project are estimated at sh. 20,000,000. Banden's Limited's cost of capital is 12%-this should serve as the minimum rate of return for all the Projects.

Required:

- i) Describe the problem of capital rationing in view of the proposed Projects. (4 marks)
- ii) Calculate the Net Present Value (NPV) for Project B and E and advise (10 marks)

QUESTION FIVE(20 MARKS)

- a) Discuss any three functions of Commercial Banks of Kenya. (6 marks)
- b) You have been appointed the Chief Finance Officer of a Private University. Describe three internal controls that you would put in place to manage Cash at hand and Cash at Bank (6 marks)
- c) Compute the present value of an investment scheme for a Microfinance bank which pays 7% per annum interest and promises sh. 150,000 today, sh. 180,000 in two years and sh. 200,000 in four years time (8 marks)