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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR
FIRST YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 5th December, 2024
Time: 11.30am – 1.30pm

KFI 2101 - INTRODUCTION TO FINANCIAL MANAGEMENT

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

CASE STUDY

BUSINESS REGISTRATION, INTERNAL CONTROLS AND AGENCY PROBLEMS

Mary, James and John have opted to register their business as a Company limited by shares (Sumra Limited). 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 members would consider raising more capital to finance the company soon. Mary thought of convincing the other Directors to engage a venture capitalist to provide the capital needed. James was tasked to come up with various internal controls to safeguard the Company's assets.

Upon registration, the company engaged 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 County Governor! John had a personal business which he thought to engage in subcontracting to supply goods to the County without knowledge of the other Directors! Mary also had a personal business which she wanted to engage to supply stationery to the Company hence conflict of interest! 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.

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

- a) Explain any three financing options that Sumra Limited could use to raise capital from money markets. (6 marks)
- b) Explain any three accounting controls that Sumra Limited could adopt to safeguard its long-term assets particularly Furniture and Fixtures. (6 marks)
- c) Describe any three roles of a finance manager assuming that Sumra Limited appoints Ms. Joy to this role. (6 marks)
- d) Discuss three agency problems that Sumra Limited faces in its current circumstances. (6 marks)
- e) Explain three features of venture capital financing considering that Sumra Limited opts for this financing option. (6 marks)

QUESTION TWO (20 MARKS)

- a) Palm 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 with 30% of their investment going into land (the balance of 70% is to be invested in rentals). Consider the financial information below:

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

Required;

- i) Compute the expected returns for Rentals (R) and Land (L) (4 marks)
- ii) Compute the standard deviation for Rentals (R) and advise accordingly. (6 marks)
- b) Describe two key internal controls that a firm could adopt to manage cash (4 marks)
- c) Describe personal finance by citing any four of its dimensions (6 marks)

QUESTION THREE (20 MARKS)

- a) Discuss four key factors to be considered in valuation of a commercial building which your firm would like to buy. (8 marks)
- b) Explain any three types of systematic risk which are bound to affect money markets in Kenya (6 marks)
- c) Mr. John has just obtained a loan of sh. 200,000 which he wants to invest for 4 years in some investment scheme which will pay a 10% per annum return on investment over the 4 years. How much should he expect after the 4 year period? (6 marks)

QUESTION FOUR (20 MARKS)

- a) Mirosoa 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. 8,450,000 in purchase price and sh. 50,000 for transportation from the port of Mombasa. 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) Compute the Truck's Net Present Value (NPV) 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 University in Kenya (6 marks)
- c) Describe two internal controls for safeguarding Motor vehicles of a Company (4 marks)

QUESTION FIVE(20 MARKS)

- a) Describe the informal finance sector by describing any three institutions which support the lending function of the sector (8 marks)
- b) Joyce needs sh. 1,400,000 in 4 years' time to comfortably invest in a retail shop at her rural home. A bank has promised her a 10% return per annum if she invests into the scheme. How much does he have to deposit into the bank today in order to achieve this objective in 4 years' time? (6 marks)
- c) Distinguish between a primary market and a secondary market in the context of raising capital for a multinational company with a branch in Nairobi, Kenya (6 marks)