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

Date: 14th April, 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)

a)   ABC Limited is a manufacturing firm with interest in automobile accessories. The liquidity needs of the firm have been varying greatly of late. The current liabilities keep rising as the current assets remain static. It has been established that the firm uses sh. 350,000 weekly but incurs sh. 350 as borrowing costs. The cost of raising new capital in the commercial banking sector is 10%.

   i)   Compute the optimal cash balance for the firm bearing in mind formal sources of capital.   (6 marks)
   ii)   Describe three value maximization interventions by the Finance Manager in view of the acts provided above.   (6 marks)

b)   Explain any three internal controls for managing cash in a University.

                                                                                                                 (6 marks)
c)   Describe three key roles of a Finance Manager of a Company that operates a soft drinks processing plant in industrial area, Nairobi County, Kenya.   (6 marks)

d)   Explain the scope of informal finance in line with lending practices.

                                                                                                                 (6 marks)

QUESTION TWO (20 MARKS)

a) An investor is keen on investing in shares and bonds. She visits a stock market and subsequently comes across two securities (X and Y) that look promising compared to ten others in the same market. Upon their evaluation, she finds their risks and returns as follows:

	X	**Y**
Expected returns…….15%	15%	20%
Standard deviation…. 0.35	0.35	0.13

Advice the investor on the best investment option based on the contributions of Markowitz (1952) on risk diversification and portfolio selection. (6 marks)

b) Differentiate between primary markets and secondary markets in finance.

(6 marks)

c) ABC limited Common stocks have been paying dividends for the last 5 years. The security's prices and dividends are shown below

Year	Dividends	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

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) Describe the scope of personal finance in the context of financial management for individuals and households (6 marks)

b) Explain the financial risk management framework by clearly identifying the steps that should guide a Finance Manager of a University in hedging. (8 marks)

c) Discuss three determinants of dividend policy of a Company.

(6 marks)

QUESTION FOUR (20 MARKS)

a) Discuss any three functions of Central Bank of Kenya. (6 marks)

b) Compute the present value of an investment that pays 8% interest and promises sh. 120,000 in two years and sh. 200,000 in three years time (6 marks)

c) Evaluate four internal controls that a finance manager could adopt to manage Equipment of a Company that has several branches across the Country (8 marks)

QUESTION FIVE (20 MARKS)

a) Discus three key inputs of valuation of valuation of Bonds and Stocks in a money market

(6 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 any four principles of public finance management in view of Chapter 13 of the Kenya Constitution 2010. (8 marks)