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KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR
THIRD YEAR, FIRST SEMESTER EXAMINATION
FOR THE BACHELOR OF BUSINESS AND INFORMATION TECHNOLOGY
KBA 2302 – FINANCE AND BUSINESS INFORMATION SYSTEMS

Date: 05TH December 2024
Time: 11:30AM – 1:30PM

INSTRUCTIONS TO CANDIDATES
ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS
QUESTION ONE (30 MARKS)
Skyline Tech Financial and Operational Hurdles

Skyline Tech Ltd., a mid-sized technology firm based in Nairobi, specializes in software development for local businesses. Over the past five years, the company has experienced rapid growth due to increasing demand for digital solutions. This growth has been reflected in a significant rise in sales and market share. However, the expansion has also presented several financial and operational challenges that threaten to undermine the company's long-term stability.

Skyline Tech's sales revenue increased from KES 40 million to KES 55 million in the last financial year. While this growth was impressive, the company's operational costs surged by an even higher percentage. Production costs, which include software development, employee salaries, and raw material acquisition, grew by 35%. Administrative expenses, covering executive compensation, office maintenance, and utilities, rose by 50%. This disproportionate increase in costs has prevented the company from realizing higher profits, despite the increase in revenue.

A key area of concern has been Skyline Tech's receivables management. Accounts receivable increased by 25% as many of its clients delayed payments, with the average payment period extending from 45 to 75 days. This delay has created significant cash flow challenges for the company, forcing it to rely on short-term loans to cover its immediate working capital needs. As a result, Skyline Tech's interest expenses increased by 15% during the year, further cutting into its profits.

Despite these liquidity challenges, the company made a bold decision to invest in capital projects, purchasing new software tools and upgrading its infrastructure. This investment cost the company approximately KES 15 million and further reduced its cash reserves. While these capital expenditures were aimed at increasing operational efficiency and improving product quality, the timing of these investments has raised concerns among financial advisors, particularly given the company's declining liquidity.

Skyline Tech's management is now considering several strategic options to address these issues. Among them are tightening budgetary controls, improving cash flow management by offering early payment discounts to clients, and revisiting its capital investment strategy to delay further expenditures until the financial position stabilizes. Furthermore, the company is exploring ways to optimize cost structures through better cost classification and control, particularly focusing on distinguishing between fixed and variable costs.

The finance and Business Information consultant hired by Skyline Tech has presented a report outlining these challenges and has recommended that the company adopt more rigorous financial planning and control mechanisms. The report suggests that managerial accounting techniques, such as budgeting, forecasting, and variance analysis, could significantly improve the company's decision-making processes and help navigate the complex financial landscape.

Required:
a)   Identify and explain the key financial problems Skyline Tech is facing based on the case study.

(6 Marks)

b)	Discuss how effective cost classification and control could help Skyline Tech manage its rising operational costs.	(6 Marks)

c)	How can Skyline Tech improve its cash flow situation based on the given data? Provide at least two strategies.	(6 Marks)

d)	Evaluate the company's decision to invest in capital while facing liquidity issues. What would you recommend as an alternative approach?	(6 Marks)

e)	How can managerial accounting techniques, such as budgeting and forecasting, assist Skyline Tech in managing its financial future?	(6 Marks)

QUESTION TWO (20 MARKS)

a)	Differentiate between financial accounting and managerial accounting. Provide two examples of how each is used in business decision-making.	(5 Marks)

b)	Explain the concept of the accounting cycle. Highlight its importance in ensuring accuracy in financial reporting.	(5 Marks)

c)	Using relevant examples, discuss how the classification of costs (fixed, variable, and mixed) affects a company's pricing and budgeting decisions.	(5 Marks)

d)	Describe the key components of a balance sheet and how it reflects the financial health of a company.	(5 Marks)

QUESTION THREE (20 MARKS)

a)	Define the time value of money and explain its significance in financial decision-making. Provide an example to illustrate your answer.	(5 Marks)

b)	Explain the concept of Net Present Value (NPV) and its role in investment decision-making. Provide a practical example of how NPV is calculated.	(5 Marks)

c)	Discuss the impact of capital structure on a company's cost of capital. Compare debt vs. equity financing.	(5 Marks)

d)	What are the key differences between mergers and acquisitions? Discuss the potential financial and operational impacts of a merger.	(5 Marks)

QUESTION FOUR (20 MARKS)

a)	Explain the role of business information systems in financial analysis and decision-making. Provide examples of tools used for financial data analysis.	(5 Marks)

b)	How can data mining techniques help in financial forecasting? Provide two practical examples.	(5 Marks)

c)	Discuss the concept of cost-volume-profit (CVP) analysis and its use in managerial decision-making. Provide an example to support your explanation.	(5 Marks)

d)	Outline the importance of budgeting in financial planning and control, and explain how variance analysis is used to monitor financial performance.	(5 Marks)

QUESTION FIVE (20 MARKS)

a)	Describe the efficient market hypothesis (EMH) and its implications for investors in financial markets.	(5 Marks)

b)	Define the term derivatives, and how do they function as risk management tools? Provide examples of common derivative instruments.	(5 Marks)

c)	Explain the role of diversification in risk management and how it affects an investor's portfolio.	(5 Marks)

d)	How does the concept of Value at Risk (VaR) assist financial managers in managing market risk?	(5 Marks)