



(Knowledge for Development)

**KIBABII UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2020/2021 ACADEMIC YEAR**

**FIRST YEAR SECOND SEMESTER**

**MAIN EXAMINATION**

**FOR THE BACHELOR OF COMMERCE**

**COURSE CODE: BCF 440**

**COURSE TITLE: STRATEGIC FINANCIAL MANAGEMENT**

**DATE:** 13-5-2021

**TIME:** 2-4 Pm

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**INSTRUCTIONS TO CANDIDATES**

Answer Question One in Section A and Any other TWO (2) Questions in Section B

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over.

**EXAMINATION INSTRUCTIONS:****ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS IN SECTION B****QUESTION ONE**

- Explain why the statement of cash flows in an organization should be regarded as a savior not an evil that generates other evils ( 10 Marks)
- It is also argued that the statement in (a) above should be disregarded due to its pitfalls. Explain these pitfalls using knowledge acquired from Strategic Financial Management class of Kibabii University( 10 Marks)
- From the following details you are to draft a statement of cash flows for J. Nandasaba for the year ending 31 December 2017, using the IAS 7 layout. (10 marks)

Duncan

Income Statement for the year ending 31<sup>st</sup> December

	Kshs	Kshs
Gross profit		44,700,000
Add Discounts received	410,000	
Profit on sale of van	620,000	<b>1,030,000</b>
		<b>45,730,000</b>
Less Expenses:		
Motor expenses	1,940,000	
Wages	17,200,000	
General expenses	830,000	
Bad debts	520,000	
Increase in allowance for the doubtful debt	200,000	
Depreciation Van	1,800,000	<b>22,490,000</b>
<b>Net profit</b>		<b>23,240,000</b>

Statement of financial position as at 31 December

	2016		2017	
	Kshs	Kshs	Kshs	Kshs
Net current assets				
Vans at cost		15,400,000		
8,200,000				
Less depreciation to date		5,300,000		
(3,100,000)				
		<b>10,100,000</b>		
<b>5,100,000</b>				
<b>Current assets</b>				
Inventory	18,600,000		24,000,000	
Accounts receivable less allowance	8,200,000		6,900,000	
Bank	410,000		720,000	

27,210,000

31,620,000  
Total assets  
36,720,000

37,310,000

Current liabilities			
Accounts payable	5,900,000		7,200,000
Non – current			
Loan from J.Fry	10,000,000		7,500,000
		(15,900,000)	
(14,700,000)			
<b>Net assets</b>		<b>24,410,000</b>	
<b>22,020,000</b>			
<b>Capital</b>			
Opening balance b/d		17,210,000	
21,410,000			
Add net profit		21,200,000	
23,240,000			
		<b>38,410,000</b>	
<b>44,650,000</b>			
Less Drawings		<u>(17,000,000)</u>	
<u>(22,630,000)</u>			
Total capital		<u><b>24,410,000</b></u>	
<b>22,020,000</b>			

Accounts receivable 2016 Kshs. 8,800,000 – allowance Kshs. 600, 000  
Accounts receivable 2017 Kshs. 7,700,000 – Allowance Kshs. 800,000  
Note. A van was sold for Ksh. 3,820,000 during 2017.  
No new vans were purchased during the year.

## QUESTION TWO (20 MARKS)

Write Explanatory notes on the following terminologies:-

- Hypothecation ( 4 Marks)
- Pledge( 4 Marks)
- Mortgage( 4 Marks)
- Factoring( 4 Marks)
- Commercial Banks( 4 Marks)



### QUESTION THREE (20 MARKS)

Kitenato Company Limited has just wound up its expansion program and wishes to obtain funds for this noble course. Many financial institutions and other firms the size of Kitenato have many products on offer but have a time frame of one year and less for settlement of their indebtedness by Kitenato. The Kitenato Company Ltd is willing to enter into an agreement under seal to obtain the funds with the readiness to comply with the agreement. Identify and fully explain any eight of these products.

### QUESTION FOUR (20 MARKS)

Kibabii Company is desirous to set up a project whose cost is estimated at \$500,000,000. The general reserve account which has been accumulated for the last one decade can raise \$ 100,000,000. The balance of \$400,000,000 can be obtained from outside sources but upon strenuous negotiations with fund providers it was solemnly agreed that a maximum period of 20 years was openly available to make good the \$400,000,000 in debt. Both the debtor and the creditor are willing and have signed the papers to execute this agreement. In your view and to the best of your knowledge and understanding, suggest any eight of such fund providers in the finance environment today.

### QUESTION FIVE (20 MARKS)

- a. A project identified as "X" is expected to cost Ksh.1, 000,000. Its streams of cash inflows from years 1 through five are sh.900,000, sh.800,000, sh.700,000, sh.600,000, and sh. 500,000. The opportunity cost of capital for this project is 10 %. Calculate the present value and net present value of this project ( 16 Marks)
- b. Determine whether the project should be accepted or rejected by management(4 Marks)