



RIARA SCHOOL OF BUSINESS
NURTURING INNOVATORS

SEPTEMBER – DECEMBER 2023 SEMESTER
EXAMINATION FOR BACHELOR OF BUSINESS ADMINISTRATION

EVENING PROGRAMME

RFN 302: SHORT TERM FINANCIAL MANAGEMENT

DATE: 29TH DECEMBER 2023

TIME: 2

HOURS

GENERAL INSTRUCTIONS:

- i. Students are **NOT** permitted to write on the examination paper during reading time.
- ii. This is a closed book examination. Text book/Reference books/notes are not permitted.

SPECIAL INSTRUCTIONS

1. Write your REGISTRATION NO. Clearly on the answer booklet(s).
2. Answer Question One and ANY other TWO questions.
3. Questions in all sections should be answered in answer booklet(s)
4. PLEASE start the answer to EACH question on a NEW PAGE.
5. For the questions, write the number of the question on the answer booklet(s) in the order you answered.
6. Write on both sides of each leaf and indicate number of each question at the top of each page.
7. Write the answers in a paragraph form unless stated otherwise.
8. Marks allocated to each question are shown at the end of the question.
9. All rough work must be done on the answer booklet and crossed through!

10. Use supplementary pages only when you have exhausted those in this book.

11. Fasten the supplementary pages to the inside back cover of this booklet.

QUESTION ONE: COMPULSORY (30 MARKS)

- a) Examine five merits and five demerits of credit sales. **(10 marks)**
- b) Explain **five** factors that affect the working capital requirements of a business. **(10 marks)**
- c) A firm has set the minimum cash balance to be equal to Sh.100,000. The standard deviation of daily cash flow is Sh.2,500 and the interest rate on marketable securities is 9% p.a. The transaction cost for each sale or purchase of securities is Sh.20.

Required: Using the Miller – Orr cash management model;

- i) Calculate the target cash balance **(4 marks)**
- ii) Calculate the upper limit **(3 marks)**
- iii) Calculate the average cash balance **(3 marks)**

QUESTION TWO

- a) Evaluate **five** cash collection systems that a firm can employ to optimize cash management. **(10 marks)**
- b) Explain any **five** accounts payable arrangements. **(10 marks)**

QUESTION THREE

- a) Illustrate five financial measures (ratios) that are used to assess a firm's liquidity. **(10 marks)**
- b) Explain **five** main determinants of a company's liquidity. **(10 marks)**

QUESTION FOUR

- a) Evaluate **five** reasons why firms hold inventory. **(10 marks)**
- b) ABC Ltd requires 2,000 units of a component in its manufacturing process in the coming year which costs Sh.50 each. The items are available locally and the lead-time is one

week. Each order costs Sh.50 to prepare and process while the holding cost is Shs.15 per unit per year for storage plus 10% opportunity cost of capital.

Required: using the EOQ Model, determine:

- i) The number of units that should be ordered each time an order is placed to minimize inventory costs. **(5 marks)**
- ii) The orders to be placed per year **(2 marks)**
- iii) The total relevant costs. **(3 marks)**

*****END*****