



NURTURING INNOVATORS

**RIARA SCHOOL OF BUSINESS
MAY –AUGUST 2023 TRIMESTER
EXAMINATION FOR BACHELOR OF BUSINESS ADMINISTRATION
EVENING PROGRAMME**

RFN102: INTRODUCTION TO RISK MANAGEMENT

AUGUST 2023

TIME: 2 HOURS

GENERAL INSTRUCTIONS:

Students are NOT permitted to write on the examination paper during reading time.
This is a closed book examination. Textbook/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 the answer booklet(s).
4. Marks allocated to each question are shown at the end of the question.
5. PLEASE start the answer to EACH question on a NEW PAGE.
6. For the questions, write the number of the question on the answer booklet(s) in the order you answered them.
7. Write your answers in paragraph form unless stated otherwise.
8. Keep your phone(s) SWITCHED OFF at the front of the examination room.
9. Keep ALL bags and caps at the front of the examination room and do not refer to any unauthorized material before or during the course of the examination.
10. You are only allowed to leave the examination room 30minutes to the end of the Examination.

QUESTION ONE

You have been appointed as the risk assessor and advisor of Cross border Trading Company Ltd. The company's head office is in Nairobi, Kenya and it has considerable overseas operations. At each accounting year end, there are large debts due from overseas agents of the company (Sh. 270 million out of total debts of Sh. 680 million as of 31 December 2021). In the past, these debts have always been settled after year end, however, 40% of the debts remains unpaid. The company intends to expand further to other foreign countries by introducing new products. Required

- a) Explain any **FOUR** risks that are likely to be associated with Cross border Trading Company Ltd. **(8marks)**
- b) Advise the company on how they can manage the risks identified above **(8marks)**
- c) Risk management provides a clear and structured approach to identifying risks. Advise the management of Cross border Trading on the benefits of a prudent risk management system. **(6marks)**
- d) Describe to management how the company can use the following investment appraisal techniques to evaluate the new investments of expansion.
 - i) Payback period
 - ii) Net present value
 - iii) Profitability Index
 - iv) Accounting rate of return **(8marks)**

QUESTION TWO

- a) Environmental pollution is the introduction of harmful materials or objects into the ecosystem. Environmental pollution will have harmful effects to people and animals. Discuss any **FIVE** ways of preventing environmental pollution. **(10marks)**
- b) Many of the challenges faced by risk managers are often similar to those faced by other managers. However, a number of key characteristics will tend to distinguish risk

management problems. Explain **FIVE** such key characteristics. **(10marks)**

QUESTION THREE

a) Foreign exchange risk is the uncertainty of the outcome that arises because of the unpredictability of the exchange rate movement. There are normally three types of foreign exchange risks. Discuss **THREE** foreign exchange risks. **(12 marks)**

b) There are several methods of managing foreign exchange risk. Describe any **FOUR** methods a company will apply to manage foreign exchange risks.
(8marks)

QUESTION FOUR

a) Describe the following terms as used in risk management.

i) Impact of risk

ii) Likelihood of risk

iii) Capacity of risk

iv) Risk tolerance

v) Risk appetite

(10marks)

b) When assessing the client's financial soundness as a risk expert, you will be assessing certain aspects of the financial statements. Discuss any **FOUR** such aspects of the financial statements.

(10marks)

