



*NURTURING INNOVATORS*

**RIARA SCHOOL OF BUSINESS  
MAY – AUGUST 2023 TRIMESTER  
EXAMINATION FOR DEGREE IN BUSINESS ADMINISTRATION  
DAY/EVENING PROGRAMME**

**RFN 302: SHORT TERM FINANCIAL MANAGEMENT**

**AUGUST 2023  
HOURS**

**TIME: 2**

**GENERAL INSTRUCTIONS:**

Students are NOT permitted to write on the examination paper during reading time.

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. 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: COMPULSORY (30 MARKS)**

- a) Define net working capital and describe its four main components **(8 marks)**
- b) Discuss five types of short term investment opportunities available to a firm with excess cash. **(10 Marks)**
- c) 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 Sh. 15 per unit per year for storage plus 10% opportunity cost of capital.

**Required**

- i. Compute the units to be ordered each time an order is placed in order to minimize inventory costs **(3 Marks)**
- ii. Calculate the reorder level **(3 Marks)**
- iii. Calculate the number of orders to be placed per year **(3 Marks)**
- iv. Determine the total relevant costs. **(3 Marks)**

**QUESTION TWO**

- a) Discuss **four** factors that can provide a framework for performing in-depth credit analysis to a firm’s credit applicants. **(8 Marks)**
- b) Below are the financial statements for Bidii Ltd

**Bidii Ltd Statement of Financial position as at 31<sup>st</sup> December 2022**

<b>Non-current Assets</b>	<b>Ksh.</b>	<b>Ksh.</b>
Land and buildings	3,500,000	
Plant and machinery	<u>3,000,000</u>	
		6,500,000
<b>Current Assets</b>		
Inventory	350,000	
Receivables	300,000	

Cash	<u>50,000</u>	
		<u>700,000</u>
<b>Total assets</b>		<b><u>7,200,000</u></b>
<b>Equity</b>		
Share capital	50,000	
Retained profits	<u>5,800,000</u>	
		5,850,000
<b>Non-current assets</b>		
25 year mortgage		1,000,000
<b>Current liabilities</b>		
Trade payables	225,000	
Tax payable	<u>125,000</u>	
		<u>350,000</u>
		<b><u>7,200,000</u></b>

**Bidii Statement of Income & Expenditure for the year ended 31<sup>st</sup> December 2022**

	<b>Ksh.</b>
Sales Revenue	3,750,000
Cost of sales	<u>(750,000)</u>
<b>Gross profit</b>	<b>3,000,000</b>
Selling & distribution	(900,000)
Administration	<u>(875,000)</u>
<b>Profit before interest and tax</b>	<b>1,225,000</b>
Finance costs	<u>(60,000)</u>
<b>Profit before tax</b>	<b>1,165,000</b>
Taxation	<u>(115,000)</u>
<b>Profit after tax</b>	<b><u>1,050,000</u></b>

Evaluate and comment on the performance of Baraka Ltd through calculation of the following ratios

(i) **Two liquidity ratios**

**(4 Marks)**

- (ii) Two solvency ratios (4 Marks)
- (iii) Two activity ratios (4 Marks)

### QUESTION THREE

- a) ABC Company has issued a 90-day commercial paper of a face value of Sh. 1,000 at Sh. 980. The credit ratings expenses are 0.5 % of the size of the issue, issuing and paying agent (IPA) charges being 0.25 % and stamp duty 0.75 %. Compute the cost of the commercial paper.  
(5 marks)
- b) Explain any five sources of short term bank finance to a firm. (15 marks)

### QUESTION FOUR

- a) Discuss **four** approaches to decision making (12 marks)
- b) Describe the four assumptions of Baumol cash management model (8 marks)