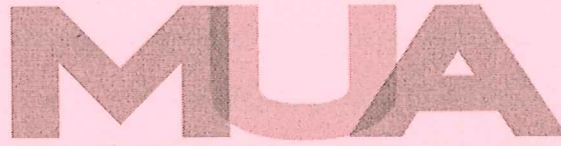


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**UNDERGRADUATE UNIVERSITY EXAMINATIONS**

**SCHOOL OF MANAGEMENT AND LEADERSHIP**

**DEGREE OF BACHELOR OF COMMERCE**

**FIN 313: ASSET MANAGEMENT**

**DATE: 11<sup>TH</sup> AUGUST 2023**

**DURATION: 2 HOURS**

**MAXIMUM MARKS: 70**

**INSTRUCTIONS:**

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.

## QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

### MANAGING ASSET CASH FLOWS

Calculating cash flow is an important business operation. Cash flow provides insights regarding the financial health and profitability of a company. Cash flow generated by operations includes the net income, which is how much they earned after covering business costs. It also includes all non-cash expenses. Examples of these non-cash expenses may include amortization and depreciation.

Depreciation is a method of reduction that breaks down the expenses linked to a fixed asset's long-term costs. On the other hand, Amortization is the decreasing cost of an intangible item over a certain period.

It's important to track cash flow from assets because it helps illustrate the financial health of a business. Cash flow from assets shows how much cash a business spends on essentials to operate. It also illustrates where and how a business spends its money. It's also important to track cash flow from assets because it's something investors care about. Cash flow from assets also demonstrates cash spending or spin-off with the current capital operation and structure. Investors care about this because it helps them determine what the actual value of the firm is or should be. Cash flow from assets also provides investors with insight regarding which assets they may use to pay off debt or eliminate to reduce spending and improve the value of the company.

It's important for a company to have positive cash flow from assets because then it is making money rather than just spending it.

#### Required:

- a) Since it is important for a company to have positive cashflows:
  - i. Highlight 5 cashflow challenges that organizations face (5 marks)

- ii. Explain six techniques a company can use to help create more positive cash flows. (9 marks)
- b) Suppose a company has an asset it intends to invest in which is expected to cost Ksh. 40 Million & has an expected economic life of 5 years. The expected Earnings Before Depreciation and Tax are as follows:

Year	1	2	3	4	5
Earnings '000'	10,000	12,000	14,000	16,000	20,000

**Required:**

Assuming a tax rate of 30%, determine the cashflows that the asset is expected to generate (8 Marks)

- c) Explain how depreciation can be used as a source of finance for an organization (3 Marks)

**QUESTION TWO**

- a) An individual has assets that do not have inherent physical worth or physical form.

**Required:**

- i) Identify the type of asset described above and explain your answer (2 Marks)
- ii) Describe 3 pros and 3 cons of highly liquid assets identified above (6 Marks)
- b) Mortgages are loans used to buy homes and other types of real estate. In summary, describe how mortgages work (7 Marks)

**QUESTION THREE**

- a) Examine the challenges of using the following approaches in estimating asset value.
- (i) Book value (3 Marks)
- (ii) Replacement value (3 Marks)

- (iii) Substitution value; (3 Marks)
- (iv) Intrinsic value. (3 Marks)
- b) Highlight three factors that determine choice of method of depreciation (3 Marks)

**QUESTION FOUR**

- a) Explore 6 benefits of asset management (9 Marks)
- b) Examine 3 challenges faced by asset management companies in Kenya (6 Marks)

**QUESTION FIVE**

- a) Citing relevant examples, differentiate between financial assets and physical assets. (5 Marks)
- b) Compute the book values that will be recorded in the next four years if an asset that costs \$10,000 and is depreciated by the declining balance method at 25% per year. (6 Marks)
- c) Differentiate between underfunded and fully funded pension plan (4 marks)

**QUESTION SIX**

- a) Outline 5 emerging trends that are likely to shape the future of asset management in Kenya (5 marks)
- b) The following records relate to a certain business in the year 2021;

1-Jan	Furniture	50,000
	Stock	150,000
	Bank	200,000
	Cash	50,000

Debtors:

Mike	40,000
Paul	60,000

4-Jan Sold goods to Mike Kshs 15,000

21-Jan Mike returned goods Ksh 2,000

22-Jan Received a cheque from Paul less 5% discount

Prepare journal entries to show how the assets will be recorded in the books of the company (10 marks)

