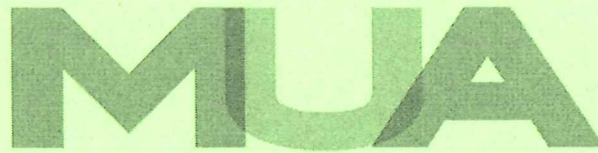


The
Management
University
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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

FIN 313 : ASSET MANAGEMENT

DATE : 9TH APRIL 2024

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:

Cash Flow: What It Is, How It Works, and How to Analyze It

Cash flow is the net cash and cash equivalents transferred in and out of a company. Cash received represents inflows, while money spent represents outflows. A company creates value for shareholders through its ability to generate positive cash flows and maximize long-term free cash flow (FCF). FCF is the cash from normal business operations after subtracting any money spent on capital expenditures (CapEx).

Businesses take in money from sales as revenues and spend money on expenses. They may also receive income from interest, investments, royalties, and licensing agreements and sell products on credit. Assessing cash flows is essential for evaluating a company's liquidity, flexibility, and overall financial performance.

Positive cash flow indicates that a company's liquid assets are increasing, enabling it to cover obligations, reinvest in its business, return money to shareholders, pay expenses, and provide a buffer against future financial challenges. Companies with strong financial flexibility fare better in a downturn by avoiding the costs of financial distress.

Cash flows are analyzed using the cash flow statement, a standard financial statement that reports a company's cash source and use over a specified period. Corporate management, analysts, and investors use it to determine how well a company earns to pay its debts and manage its operating expenses. The cash flow statement is an important financial statement issued by a company, along with the balance sheet and income statement.

Required:

- a) Assess the reason why cash flows are important to businesses **(3 marks)**
- b) Evaluate six ways that businesses can improve cash flows **(9 marks)**
- c) Examine how analysis of cash flows can assist with financial planning **(3 marks)**
- d) A company is considering two mutually exclusive projects requiring an initial cash outlay of Sh 10,000 each and with a useful life of 5 years. The company

required rate of return is 10% and the appropriate corporate tax rate is 50%. The projects will be depreciated on a straight line basis. The before depreciation and taxes cashflows expected to be generated by the projects are as follows.

YEAR	1	2	3	4	5
Project A	Shs 4,000	4,000	4,000	4,000	4,000
Project B	Shs 6,000	3,000	2,000	5,000	5,000

Required:

- i. Calculate the cash flows to be generated by project A (5 marks)
- ii. Calculate the cash flows to be generated by project B (5 marks)

QUESTION TWO

- a) Explore five key issues that fund managers must address when performing quantitative analysis in response to risks that they face in money market funds in Kenya (10 marks)
- b) Explain five reasons why asset managers are moving away from defined benefit schemes (5 marks)

QUESTION THREE

- a) Explain five emerging trends that are likely to affect the future of asset management in Kenya (5 marks)
- b) Assume a firm buys machinery for £100,000 and provides depreciation on machines at 20% p.a. Compute the depreciation charged to the Profit and Loss Account for the next 3 years using reducing balance and straight line methods. (10 marks)

QUESTION FOUR

- a) Explore four challenges facing the administration and management of pension funds in Kenya. (8 marks)
- b) Identify the three major asset management firms in Kenya (3 marks)
- c) Differentiate between underfunded and fully funded pension plan (4 marks)

QUESTION FIVE

- a) Examine two main traditional methods of funding real estate development in Kenya (3 marks)
- b) Asset lifecycle management is a strategic and analytical approach used to determine each stage of an asset's life cycle to maximize operational efficiency and generate a greater overall return on investment. Explain the four stages of the asset lifecycle management (8 marks)
- c) Highlight four key roles performed by an asset manager (4 marks)

QUESTION SIX

- a) If a portfolio contained four equally weighted assets with expected returns of 4%, 6%, 10%, and 14%, determine the portfolio's expected return. (4 marks)
- b) Explore three techniques that management use to generate positive cash flow from assets (6 marks)
- c) An asset allocation strategy is such that it involves choosing a target mix of investments, say 60% stocks and 40% bonds, and rebalancing periodically to match up with those numbers.

Required:

- i. Identify the allocation strategy above (2 marks)
- ii. Assess the major advantage in the allocation strategy identified in (i) above (3 marks)