BACHELOR OF COMMERCE

END OF SEMESTER EXAMINATION

CFN 402: FINANCIAL RISK MANAGEMENT

APRIL 2021

ONLINE CLASS

Instructions

- **i) This exam paper contains SIX questions containing 10 marks each.**
- **ii) Answer Question 1 (COMPULSORY) and any other THREE questions**
- **iii) Read each question carefully before attempting.**

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QUESTION ONE

You have been appointed the finance manager of Ushindi Ltd. You have noticed the company is exposed in various forms of financial risk and you have gone to the managing director with your concerns. You have been asked to discuss ways to;

(a) Reduce credit risk. (4 marks)

(b) Reduce interest rate risk. (6 marks)

QUESTION TWO

As a finance director in UPEO Ltd you have been asked by the shareholders to give a presentation on why the company should engage in risk management.

(a) Define Financial Risk Management. (2 marks)

(b) Explain FOUR reasons why business enterprises engage in financial risk management. (8 marks)

QUESTION THREE

A farmer in Eldoret expects to harvest 20,000 bags of wheat in late August. On 10th July, the price of wheat is 1600 shillings per bag. The farmer is worried as he suspects that price will fall below 1600 shillings before his August delivery date. He can hedge his position by selling August wheat futures. The August wheat futures price is 1570 shillings per bag. The farmer sold the August wheat futures. When August end approached, the price had fallen to 1500 shillings per bag.

Required: Calculate the value of the hedged position. (10 marks)

QUESTION FOUR

Almasi Ltd is undertaking an overhaul of their risk management document. They are giving particular emphasis to swaps.

(a) Define Swaps. (2 marks)
(b) Discuss FOUR different types of swaps. (8 marks)

QUESTION FIVE

Your company XYZ Ltd is in the process of updating their risk management document. They are considering the various tools of contracting. You have been asked to complete the part of options with particular emphasis on;

(a) Define option. (2 marks)
(b) Explain FOUR Classifications of options. (8 marks)

QUESTION SIX

As a finance director;

(a) Define hedging. (2 marks)

(b) Discuss FOUR advantages of hedging. (8 marks)