

7033/102
FINANCIAL MANAGEMENT
July 2012
Time: 3 hours

THE KENYA NATIONAL EXAMINATIONS COUNCIL

DIPLOMA IN MANAGEMENT

PART I

FINANCIAL MANAGEMENT

3 hours

INSTRUCTIONS TO CANDIDATES

*This paper consists of SEVEN questions.
Answer any FIVE questions in the answer booklet provided.
All questions carry equal marks.
A table of Net Present Values is provided on page 5.
Show ALL your working.*

This paper consists of 5 printed pages.

Candidates should check the question paper to ascertain that all the pages are printed as indicated and that no questions are missing.

1. (a) Explain four ways in which non-banking financial institutions may participate in the economic development of a country. (8 marks)

(b) The following information was obtained from the books of Ram Limited for the year ended 31 December, 2010.

Estimated sales for the year 50,000 units @ ksh 50 per unit.

Variable cost per unit ksh 10.

Fixed costs ksh 1,000,000.

Calculate:

- (i) total contribution;
- (ii) contribution ratio;
- (iii) break-even quantity;
- (iv) margin of safety ratio;
- (v) sales in units required to earn a profit of ksh 60,000;
- (vi) the net profit if the selling price and sales volume decrease by 5% respectively. (12 marks)

2. (a) Explain four principles of a co-operative society. (8 marks)

(b) A debenture was quoted in a stock exchange market as follows:

Nominal value	ksh 5,000,000.
Coupon (half-yearly)	15% per annum.
Interest dates	15 March and 15 September.
Maturity date	15 March 2016.
Yield to maturity	18% per annum.
Settlement date	15 March 2012.

Calculate the price of the debenture on 15 March 2012. (12 marks)

3. (a) Outline five benefits that may accrue to an organisation that prepares a statement of cash flow. (10 marks)

(b) Muthura Limited issued 200,000, 15% preferences of ksh 15 each. The shares are redeemable at par over the next 3 years. The dividend yield of similar preference shares is at 10%.

Calculate the price of the preference shares after the 3 years. (10 marks)

4. (a) Explain four internal factors that may influence payment of dividend to the shareholders of a company. (8 marks)

- (b) Lunga Limited intends to buy a new machine to increase production as a result of increased demand for her products.
Details of the machine are as follows:

Purchase price	ksh. 450,000
Expected useful life	4 years
Scrap value	ksh. 50,000

The new machine is expected to increase the revenues by ksh 480,000 per year and fixed costs are expected to increase to ksh 200,000 per year, which includes the depreciation. The company's cost of capital is 12%. Corporation tax rate is 30%.

- (i) calculate the Net Present Value (NPV) of the machine;
(ii) advise the management whether or not to buy the machine.

(12 marks)

5. (a) Explain four advantages of operating a partnership as a form of business. (8 marks)

- (b) Nadi Limited has invested ksh. 100,000 in machine DX. The machine is expected to produce 50,000 units per annum over a period of 10 years. The following information was extracted from the books of the company for the year ended 31 December, 2010.

	Ksh.
(i) Standard cost of production	
Raw materials	12
Direct labour	4
Overheads	8
(ii) Raw materials on average take;	
• 6 weeks in stock	
• 4 weeks in processing	
(iii) Finished goods on average take 8 weeks in stock.	
(iv) Credit terms are as follows:	
• allowance by creditors	6 weeks
• allowance to debtors	12 weeks
(v) Delay in payment of wages take	3 weeks
(vi) Cash in hand is expected to be	ksh 200,000.

Production is carried out evenly throughout the year and a standard of 50 weeks production per annum is set.

Determine the estimated working capital requirements for the company. (12 marks)

6. (a) Outline four circumstances under which short-term financing may be preferred to long-term financing. (8 marks)

- (b) The following information was extracted from the books of Bingwa Limited on 31 December, 2010.

	1 Jan 2010 Ksh.	31 December 2010 Ksh.
Purchases	-	450,000
Stock	55,000	85,000
Debtors	65,000	95,000
Creditors	45,500	75,500

Additional information:

- (i) Gross profit percentage on sales is 40%.
- (ii) 25% of total sales were in cash.
- (iii) 50% of all purchases were on credit.
- (iv) Bingwa uses an average of 365 days in a year.

Determine:

- (i) the rate of stock turnover;
- (ii) debtors collection period in days;
- (iii) creditors payment period in days.

(12 marks)

7. (a) Maga Limited manufactures and sells products D,C and F. The following information relates to the year ending 2012.

	D	C	F
Sales (units)	50,000	5,000	80,000
Finished goods units (1 Jan 2012)	4,000	800	30,000
Finished goods units (31 December 2012)	2,000	200	50,000
Standard cost per unit	ksh. 20	ksh. 450	ksh. 2.50

Prepare a production budget for the year ending 31 December, 2012. (8 marks)

- (b) Takana Limited has invested ksh. 520,000 in a project. The expected cashflows are shown below.

Year	Cashflows
0	(520,000)
1	200,000
2	200,000
3	150,000
4	80,000

Determine the Internal Rate of Return (IRR) using 8% and 10% respectively.

(12 marks)

Table A
Present Value of Sh 1 Received at the End of n Periods:
 $PVIF_{r,n} = 1/(1+r)^n = (1+r)^{-n}$

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	12%	14%	15%	16%	18%	20%	24%	28%	32%	36%
1	.9901	.9804	.9709	.9615	.9524	.9434	.9346	.9259	.9174	.9091	.8929	.8772	.8696	.8621	.8475	.8333	.8065	.7813	.7576	.7353
2	.9803	.9612	.9426	.9246	.9070	.8900	.8734	.8573	.8417	.8264	.7972	.7695	.7561	.7432	.7182	.6944	.6504	.6104	.5739	.5407
3	.9706	.9423	.9151	.8890	.8638	.8396	.8163	.7938	.7722	.7513	.7118	.6750	.6575	.6407	.6086	.5787	.5245	.4768	.4348	.3975
4	.9610	.9238	.8885	.8548	.8227	.7921	.7629	.7350	.7084	.6830	.6355	.5921	.5718	.5523	.5158	.4823	.4230	.3725	.3294	.2923
5	.9515	.9057	.8626	.8219	.7835	.7473	.7130	.6806	.6499	.6209	.5674	.5194	.4972	.4761	.4377	.4019	.3411	.2910	.2495	.2149
6	.9420	.8880	.8375	.7903	.7462	.7050	.6663	.6302	.5963	.5645	.5066	.4556	.4323	.4104	.3704	.3349	.2751	.2274	.1890	.1580
7	.9327	.8706	.8131	.7589	.7107	.6651	.6227	.5835	.5470	.5132	.4523	.3996	.3759	.3538	.3139	.2791	.2218	.1776	.1432	.1162
8	.9235	.8535	.7894	.7307	.6768	.6274	.5820	.5403	.5019	.4665	.4039	.3506	.3269	.3050	.2660	.2326	.1789	.1388	.1085	.0854
9	.9143	.8368	.7664	.7026	.6446	.5919	.5439	.5002	.4604	.4241	.3606	.3075	.2843	.2630	.2255	.1938	.1443	.1084	.0822	.0628
10	.9053	.8203	.7441	.6756	.6139	.5584	.5083	.4632	.4224	.3855	.3220	.2697	.2472	.2267	.1911	.1615	.1164	.0847	.0623	.0462
11	.8963	.8043	.7224	.6496	.5847	.5268	.4751	.4289	.3875	.3505	.2875	.2366	.2149	.1954	.1619	.1346	.0938	.0662	.0472	.0340
12	.8874	.7885	.7014	.6246	.5568	.4970	.4440	.3971	.3555	.3186	.2567	.2076	.1869	.1685	.1372	.1122	.0757	.0517	.0357	.0250
13	.8787	.7730	.6810	.6006	.5303	.4688	.4150	.3677	.3262	.2897	.2292	.1821	.1625	.1452	.1163	.0935	.0610	.0404	.0271	.0184
14	.8700	.7579	.6611	.5775	.5051	.4423	.3878	.3405	.2992	.2633	.2046	.1597	.1413	.1252	.0985	.0779	.0492	.0316	.0205	.0135
15	.8613	.7430	.6419	.5553	.4810	.4173	.3624	.3152	.2745	.2394	.1827	.1401	.1229	.1079	.0835	.0649	.0397	.0247	.0155	.0099
16	.8528	.7284	.6232	.5339	.4581	.3936	.3387	.2919	.2519	.2176	.1631	.1229	.1069	.0930	.0708	.0541	.0320	.0193	.0118	.0073
17	.8444	.7142	.6050	.5134	.4363	.3714	.3166	.2703	.2311	.1978	.1456	.1078	.0929	.0802	.0600	.0451	.0258	.0150	.0089	.0054
18	.8360	.7002	.5874	.4936	.4155	.3503	.2959	.2502	.2120	.1799	.1300	.0946	.0808	.0691	.0508	.0376	.0208	.0118	.0068	.0039
19	.8277	.6864	.5703	.4746	.3957	.3305	.2765	.2317	.1945	.1635	.1161	.0829	.0703	.0596	.0431	.0313	.0168	.0092	.0051	.0029
20	.8195	.6730	.5537	.4564	.3769	.3118	.2584	.2145	.1784	.1486	.1037	.0728	.0611	.0514	.0365	.0261	.0135	.0072	.0039	.0021
25	.7798	.6095	.4776	.3751	.2953	.2330	.1842	.1460	.1160	.0923	.0588	.0378	.0304	.0245	.0160	.0105	.0046	.0021	.0010	.0005
30	.7419	.5521	.4120	.3083	.2314	.1741	.1314	.0994	.0754	.0573	.0334	.0196	.0151	.0116	.0070	.0042	.0016	.0006	.0002	.0001
40	.6717	.4529	.3066	.2083	.1420	.0972	.0668	.0460	.0318	.0221	.0107	.0053	.0037	.0026	.0013	.0007	.0002	.0001	.	.
50	.6080	.3715	.2281	.1407	.0872	.0543	.0339	.0213	.0134	.0085	.0035	.0014	.0009	.0006	.0003	.0001	.	.	.	.
60	.5504	.3048	.1697	.0951	.0635	.0393	.0173	.0099	.0057	.0033	.0011	.0004	.0002	.0001	.	.	.	.	.	.