

Name: \_\_\_\_\_ Index No. \_\_\_\_\_

2906/306  
**FINANCIAL MANAGEMENT**  
 November 2015  
 Time: 3 hours

Candidate's Signature: \_\_\_\_\_

Date: \_\_\_\_\_



**THE KENYA NATIONAL EXAMINATIONS COUNCIL**

**DIPLOMA IN BUSINESS MANAGEMENT  
 MODULE III**

**FINANCIAL MANAGEMENT**

**3 hours**

**INSTRUCTIONS TO CANDIDATES**

*Write your name and index number in the spaces provided above.*

*Sign and write the date of the examination in the spaces provided above.*

*This paper consists of **SEVEN** questions.*

*Answer **any FIVE** questions in the spaces provided in this question paper.*

*Do **NOT** remove any pages from this question paper.*

*Candidates should answer the questions in **English**.*

**For Examiner's Use Only**

Question	1	2	3	4	5	6	7	TOTAL SCORE
Candidate's Score								

**This paper consists of 26 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** advantages of using equity as a source of financing to an organisation. (8 marks)
- (b) Kanya Limited is in the process of preparing a budget for the year 2015. The following estimates relate to six months ending December 2015.

Month	Sales Ksh'000	Material Purchase Ksh'000	Wages Kshs'000	Overheads Ksh'000
July	60,000	45,000	600	120
August	62,000	36,000	600	122
September	50,000	40,000	720	150
October	55,000	22,000	700	140
November	68,000	30,000	6,800	132
December	70,000	32,000	6,500	143

Additional information;

- (i) 60% of sales are made on cash basis.
- (ii) Debtors are expected to settle their accounts as follows
- 50% one month after sale.
  - 40% two months after sale
  - 5% three months after sale
  - The balance is considered as bad debt
- (iii) Creditors for materials are paid one month after purchase.
- (iv) Wages and overhead are settled in the month in which they are incurred.
- (v) Commission of 5% on sales is paid every month.
- (vi) An equipment costing Ksh.105,000 will be acquired in September and payment will be made in November 2015.
- (vii) Cash balance as at 1 October 2015 is expected to be Ksh.160,000

For each of the months October, November and December 2015: Prepare:

- (i) Debtors collection schedule
- (ii) A cash budget

(12 marks)