

2902/304

3179

FINANCIAL ASPECTS OF MARKETING

July 2019

Time: 3 hours



THE KENYA NATIONAL EXAMINATIONS COUNCIL

**DIPLOMA IN SALES AND MARKETING
BUSINESS EDUCATION SINGLE AND GROUP CERTIFICATE
EXAMINATIONS**

FINANCIAL ASPECTS OF MARKETING

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.

Candidates should answer the questions in English.

This paper consists of 8 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 methods that may be used by companies to set transfer prices of goods. (8 marks)
- (b) Mwanyika has Ksh.120,000,000 to invest in a coffee processing factory. The expected cash inflows from the investment are as follows:

Year	Cash inflows Ksh
2017	30,000,000
2018	42,000,000
2019	62,000,000
2020	32,000,000
2021	22,000,000

The cost of capital is 15%.

- (i) Calculate the Net Present Value (NPV) of the investment.
- (ii) Advise Mwanyika whether to undertake the investment or not. (12 marks)

2. (a) Explain four advantages of using ordinary share capital to finance a business. (8 marks)

- (b) The following information was obtained from the records of Tamu Limited for the five months ended 31 December 2018.

Month	Units produced	Overhead costs Ksh
August	36,000	222,000
September	34,000	213,000
October	35,000	217,000
November	40,000	241,000
December	39,000	237,000

- (i) Using regression analysis, formulate the overhead cost function of the form $y = a + bx$.
- (ii) Using the regression equation obtained in (i) above, determine the overhead costs for January 2019 when 42,000 units are expected to be produced. (12 marks)

3. (a) Explain four causes of labour turnover in an organization. (8 marks)
- (b) The following transactions relate to Wetu Enterprises during the month of May 2019.

- May 1 The proprietor started business with Ksh 2,000,000 in a business bank account *Bank a/c.*
- 3 Purchased goods for Ksh 500,000 from Bariki Limited on credit - *Purchases Credit a/c.*
- 9 Sold goods for Ksh 200,000 in cash *Cash a/c.*
- 16 Purchased goods for Ksh 400,000 by cheque *bank a/c.*
- 20 Paid Bariki Limited the amount due by cheque *bank a/c. credit a/c.*
- 31 Paid salaries and wages amounting to Ksh 120,000 in cash *Salaries wages cash.*

Prepare ledger accounts to record the transactions above. (12 marks)

4. (a) Hightech Limited manufactures cabinets. The cabinets are available in three brands namely: Modern, Classic and Unique.

	Modern (Ksh)	Classic (Ksh)	Unique (Ksh)
Selling price per unit	35,000	45,000	55,000
Production costs per unit:			
Direct materials	14,400	19,200	27,600
Direct labour	5,000	7,500	4,500
Variable overheads	2,400	3,840	4,198

Additional information:

- (I) The maximum monthly demand for the cabinets is as follows:
- | | Units |
|---------|-------|
| Modern | 2,000 |
| Classic | 3,000 |
| Unit | 4,000 |
- (II) A maximum of 92,000 direct labour hours are currently available.
- (III) The direct labour cost per hour is Ksh 500.
- (i) Compute the current shortfall in direct labour hours at maximum demand.
- (ii) For each of the brands, determine the:
- (I) Contribution per unit;
- (II) Contribution per direct labour hour.
- (iii) Advise the management on the optimal production mix.

(12 marks)

(b) Totoward Limited buys and sells toys locally. The following information relates to the toys.

- (I) Annual demand is 25,000 toys.
- (II) Ordering cost is Ksh 20,000 per order.
- (III) Purchase cost is Ksh 400 per toy.
- (IV) The annual stock holding cost is 25% of the purchase cost.
- (V) Lead time is 3 days.
- (VI) The company has 250 working days per year.

Determine the:

- (i) Economic Order Quantity (EOQ);
- (ii) Number of orders per year;
- (iii) Re-order level.

(8 marks)

5. (a) The following balances were extracted from the books of account of Mazao Traders on the 31 December 2018.

	Ksh	
Building	125,000,000	<p>24 74012800000 72420000000 Netow - 155767500 Cap 201</p>
Fixtures	2,500,000	
Accounts receivable	7,915,000	
Accounts payable	3,015,000	
Cash at bank	9,617,500	
Drawings	6,000,000	
Motor vehicles	13,750,000	
Capital	161,767,500	

Prepare a statement of financial position as at 31 December 2018.

(8 marks)

(b) Katono Limited manufactures two products, A and B. The following information is available for the preparation of the 2019 budget.

(I) Standard data per unit:

Direct materials	Standard price (per kilogramme)	Product A	Product B
		Kg	Kg
M ₁	20	8	6
M ₂	30	8	4

	Standard rate per hour	Product A	Product B
Direct labour			
D ₁	300	2	3
D ₂	200	4	3

(II) Finished goods stock of the products is provided as follows:

	Product A Unit	Product B Units
1 January 2019	2,500	2,100
31 December 2019	1,400	1,600

(III) Direct materials stock in kilogrammes:

	Materials M ₁ Kg	Materials M ₂ Kg
1 January 2019	4,600	3,100
31 December 2019	2,000	4,200

	Product A	Product B
(IV) Expected annual sales in (units)	10,000	11,200
Selling price per unit (Ksh)	1,200	1,300

Prepare a:

- Sales budget in units and shillings;
- Production budget in units;
- Direct materials usage budget in kgs;
- Direct materials purchases budget in kgs and in shillings.

(12 marks)

6. (a) Explain four advantages of the Net Present Value (NPV) method of capital investment appraisal. (8 marks)
- (b) Zawadi Limited distributes reference materials in Kosah region.

The following information relates to the materials for the month of June 2018.

Date 2018	Purchase Units	Cost per unit Ksh.
June 1	5,000	95
10	5,500	96
15	6,000	98
23	1,500	101
27	4,000	106

Date 2017	Sales Units
June 7	3,000
16	4,000
24	2,000
28	1,200
30	800

Prepare a stores ledger account using the Last In First Out (LIFO) method of stock valuation.

(12 marks)

7. (a) The following data relates to the production department of Mwananchi Manufacturers for the week ended 5 May 2019.

- Standard output per week 14,000 units
- Budgeted fixed overheads is Ksh 140,000
- Actual output was 12,000 units
- Actual fixed overheads is Ksh 150,000.

(i) Calculate

- (I) Fixed overhead expenditure variance;
- (II) Fixed overhead volume variance.

(ii) For each variance calculated in (i) above, state two possible causes.

(8 marks)

- (b) The following are the income statements for KK Limited for the years ended 31 December 2017 and 2018.

	2017 Ksh	2018 Ksh
Sales	5,000,000	8,000,000
Less cost of sales	<u>(2,750,000)</u>	<u>(4,500,000)</u>
Gross profit	2,250,000	3,500,000
Less trading expenses	<u>(1,125,000)</u>	<u>(2,750,000)</u>
Net profit before interest and taxes	1,125,000	750,000
Less Debenture interest	<u>(62,500)</u>	<u>(62,500)</u>
Net profit before tax	1,062,500	687,500
Less corporation tax	<u>(318,750)</u>	<u>(206,250)</u>
Net profit after tax	<u>743,750</u>	<u>481,250</u>

Balance as at	31 December 2017	31 December 2018
	Ksh	Ksh
Current assets	19,325,000	5,125,000
Current liabilities	10,750,000	1,900,000
Inventory	1,000,000	1,375,000
Capital employed	27,500,000	32,250,000

- (i) For each of the years 2017 and 2018, calculate the:
- (I) Return on capital employed;
 - (II) Asset turnover;
 - (III) Gross profit margin;
 - (IV) Net profit margin;
 - (V) Current ratio.
- (ii) Comment on the profitability of the company.
- (iii) Advise the management on the action to take based on the results in (i) above.
(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	.8699	.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	.4766	.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	.8625	.8219	.7835	.7473	.7130	.6806	.6499	.6209	.5674	.5194	.4972	.4761	.4371	.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	.7599	.7107	.6651	.6227	.5835	.5470	.5132	.4523	.3998	.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	.7028	.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	.1184	.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	.2178	.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	.1897	.0951	.0535	.0303	.0173	.0099	.0057	.0033	.0011	.0004	.0002	.0001

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