

3179
2902/304
FINANCIAL ASPECTS OF MARKETING
November 2022
Time: 3 hours



THE KENYA NATIONAL EXAMINATIONS COUNCIL

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

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 6 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) Highlight **four** benefits of using retained earnings as a source of business finance. (8 marks)

(b) Samma Limited produces and sells two products; X and Y. The firm uses two materials; M_1 and M_2 in its production. The following information relates to the firm for the month of July 2022.

	X	Y
Sales (units)	1,900	2,200
Selling price per unit (Ksh)	400	320

Standard material requirements:

	X	Y
M_1 (kg)	3	2
M_2 (kg)	1	4

Inventory

	X (units)	Y (units)	M_1 (kg)	M_2 (kg)
1 July 2022	65	34	150	200
31 July 2022	40	42	180	130

Prepare:

- (i) Sales budget.
- (ii) Production budget.
- (iii) Material usage budget.

(12 marks)

2. (a) Livam manufacturers uses material Tx in its production. The following information relates to the material:

Re-order period	2 - 4 days
Maximum consumption	150 units per day
Minimum consumption	80 units per day
Re-order quantity	1,000 units

Calculate:

- (i) Re-order level;
- (ii) Maximum stock level;
- (iii) Minimum stock level;
- (iv) Average stock level.

(8 marks)

- (b) The following balances were obtained from the books of account of Super Traders as at 31st December 2021.

	Ksh
Sales	5,200,000
Salaries	1,400,000
Furniture	250,000
Purchases	3,800,000
Delivery van	1,600,000
Capital	2,863,000
Cash at bank	775,000
Accounts receivable	80,000
Cash in hand	230,000
Accounts payable	72,000

Prepare a trial balance as at 31 December 2021.

(12 marks)

3. (a) Highlight **four** dangers of holding excess working capital in a business organization. (8 marks)

(b) Huruma Enterprises pays commission to its salespersons as per the following schedules:

	Sales (units)	Commission per unit (Ksh)
First	1,000	2.50
Next	2,000	4.00
Next	2,500	5.00
Above	5,500	6.00

During the month of May 2022, Mary, sales person sold 7,200 units.

- (i) Calculate the commission earned for the month of May, 2022.
- (ii) Determine the number of units Mary should sell in a month in order to earn a commission of Ksh.42,200 (12 marks)

4. (a) Explain **four** causes of material price variance. (8 marks)

(b) Mwanzo Traders intends to purchase a delivery van at a cost of Ksh.2,000,000. The following are the expected net cash inflows from the van.

Year	Net Cash inflows (Ksh)
1	800,000
2	400,000
3	400,000
4	700,000

The cost of capital is 12%

- (i) Calculate the net present value.
- (ii) Using the result in (i) above, advise the management on whether to purchase the van or not. (12 marks)

5. (a) Highlight four limitations of using ratios in analysing financial statements. (8 marks)
- (b) Tamaa Limited manufactures three products: A, B and C. The following income statement relates to the products for the month of July 2022.

	Product		
	A	B	C
	Ksh.	Ksh.	Ksh.
Sales	470,000	550,000	360,000
Less: Total costs	<u>350,000</u>	<u>600,000</u>	<u>340,000</u>
Net profit (loss)	120,000	(50,000)	20,000

Additional information:

- * 80% of total costs are variable.
- * The management is considering dropping product B.

- (i) Prepare an income statement using the marginal costing technique.
- (ii) Using the results in (i) above, advise the management on whether to drop the product or not.

(12 marks)

6. (a) Explain four uses of financial statements of a business organisation. (8 marks)
- (b) Salax processes has two production departments; P_1 and P_2 and two service departments: S_1 and S_2 .

The following are the overheads for each department.

	P_1 Ksh	P_2 Ksh	S_1 Ksh	S_2 Ksh
Overheads	710,000	640,000	200,000	250,000

Service department costs are apportioned as follows:

	P_1	P_2	S_1	S_2
S_1	40%	50%	-	10%
S_2	45%	35%	20%	-

- (i) Re-apportion the service department overheads using simultaneous equations method.
- (ii) Determine the total overheads in each production department.

7. (a) Explain each of the following methods of transfer pricing. (12 marks)
- (i) Marginal cost transfer pricing. (2 marks)
 - (ii) Negotiated transfer pricing. (2 marks)
 - (iii) Market based transfer pricing. (2 marks)
 - (iv) Full cost transfer pricing. (2 marks)
- (b) Faida Enterprises has Ksh3,000,000 to invest in either project A or project B. The following are the expected net cash inflows from each project.

	Year	Net cash inflows	
		Project A	Project B
1		1,200,000	1,500,000
2		500,000	900,000
3		300,000	600,000
4		800,000	400,000
5		600,000	150,000

- (i) Calculate the pay back period for each project.
- (ii) Using the results in (i) above, advise the management on the project to invest in. (12 marks)

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