



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF MATHEMATICS AND ACTUARIAL SCIENCE

UNIVERSITY EXAMINATION FOR DEGREE OF BACHELOR OF SCIENCE

ACTUARIAL

2ND YEAR 2ND SEMESTER 2022/2023

REGULAR (MAIN)

COURSE CODE: WAB 2407

COURSE TITLE: PRINCIPLES OF FINANCIAL MANAGEMENT

EXAM VENUE: LAB 17

STREAM: (BSc Actuarial Science)

DATE: 7/12/2022

EXAM SESSION: 15.00-17.00PM

TIME: 2.00 HOURS

Instructions:

- 1. Answer question 1 (Compulsory) and ANY other 2 questions**
- 2. Candidates are advised not to write on the question paper.**
- 3. Candidates must hand in their answer booklets to the invigilator while in the examination room.**

QUESTION ONE (30 MARKS)

- a. If you were to set up a new business manufacturing pine furniture, what resources would you need? (3 marks)
- b. What is the role of financial management in an organization? Why is it important? Why is it difficult? (4marks)
- c. Which is likely to be more expensive: a bank loan or a bank overdraft? Explain (3 marks)
- d. Assume that the personal allowance is Kshs. 5,000, and that the marginal tax rates are 20% for the first Kshs.40,000, and 40% for taxable income above this. Assuming there are no adjustments to total income, how much tax will a single person earning Kshs.50,000 pay? What proportion of total income is paid in tax? (6 marks)
- e. Explain what is meant by “double taxation relief”. (2 marks)
- f. What is the purpose of requiring that the accounts of a company should be inspected and signed off by a professional accountancy firm? (4marks)
- g. Give the accepted interpretation of “true and fair view”. (2 marks)
- h. Last year, the ABC company sold Kshs.100,000 worth of goods. It received payment for Kshs.70,000 of these during the last year, and expects to get paid Kshs.25,000 in the future in respect of the remainder. ABC does not expect to receive the remaining Kshs.5,000 because the person who owes this money has been declared bankrupt. How much should ABC show in its accounts as sales for last year? (4marks)
- i. Give and explain components of capital structure of a limited company (2marks)

QUESTION TWO (20 MARKS)

- a. Give an example of an intangible asset that a recording company might have on its statement of financial position. (4marks)
- b. Classify each of the following items, which can appear in a financial statement, as a non-current asset (NA), a current asset (CA), a non-current liability (NL), a current liability (CL) or as capital (C):
Trade receivable, Tax due, Trade payable, Ordinary Shares, Debenture (5marks)
- c. The following data was taken from the records of JOOUST plc and relates to the values of the company's assets, liabilities and equity at 31st December 2021.
Organise the items to form the company's statement of financial position (its balance sheet) as at 31st December 2021. (11 marks)

	KES
Inventories	135000
Trade payables	65000
Machinery (cost)	347000
Machinery(accumulated depreciation)	132000
Cash	56000
Long term loans	289000
Ordinary share capital	200000
Trade receivables	195000
Tax provision	67000
Retained earnings	230000
Land	350000
Other reserves	100000

QUESTION THREE (20 MARKS)

- a. A shop buys Kshs.20,000 worth of goods during 2021. It began the year with Ksh.2,000 worth of stock and ended the year with Ksh.7,000 of stock. Assuming there are no other items to be included in the cost of sales, what is the shop's cost of sales? (5marks)
- b. The following data relates to JOOUST plc for the trading year ending 31st December 2021.

Kshs. (000s)	
Advertising expenses	50
Revenue	1,135
Stock at 31st December 2020	25

Interest paid	14
Interest received	5
Depreciation of machinery	25
Stock at 31st December 2021	38
Wages and salaries of production staff	161
Wages and salaries of distribution staff	278
Wages and salaries of administration staff	40
Purchases	300
Directors' remuneration	135
Dividends paid in respect of year ending 31 December 2021	30

Produce the company's statement of comprehensive income for the year, assuming:

- i. corporation tax is 24%
- ii. the company proposes a payout ratio of a third, ie to distribute a third of this year's earnings to shareholders
- iii. the number of ordinary shares in the company is 200,000
- iv. at the end of the year, the company's property was revalued at Kshs.525,000, an increase of Kshs.22,000 from its previous value. (15 marks)

QUESTION FOUR (20 MARKS)

- a. Using the information given below, draw up JOOUST's cashflow statement for 2021 and comment on the cash movements and the final cash position.

During 2021, JOOUST had the following items of income and expenditure:

	KES
increase in stocks of finished goods	13,500
staff cost	47,300
income from Bunista dividends	4,200
turnover	362,000
tax paid	49,120
increase in cash	23,780
dividends paid	15,000
increase in work-in-progress	2,100
interest received on 3-month bank deposit	3,500
interest paid on loan stock	5,500
2021 sales for which payment not yet received	71,000
payments for 2020 sales received in 2021	63,000
2021 raw material purchases not yet paid for	37,000
2020 purchases paid for in 2021	40,000

The institution bought 3 bank note printing machines in January 2021 for Kshs.35,000 each. The total depreciation charge for 2021 was Kshs. 22,450.

On 1 January 2021, the institution had Ksh. 50,000 in cash and ksh. 98,000 in a three-month bank deposit. By 31 December 2021, it had a Kshs.73,780 in cash and Kshs. 95,000 in three month bank deposit.

JOOUST's operating profit for 2021 was Kshs.191,850.

(20marks)

QUESTION FIVE (20 MARKS)

- a. Consider the following non-current assets:
- i. factory, initial cost Kshs.250,000, estimated useful life 25 years, no residual value
 - ii. two vans, initial cost Ksh15,000 each, estimated useful life 6 years, no residualvalue
 - iii. machinery, initial cost Kshs122,000, estimated useful life 11 years, estimated residual value Kshs13,750.

The factory was bought 7 years ago. The vans and the machinery were all bought at the beginning of 2021.

The factory and the vans are depreciated using the straight line method. Depreciation on the machinery is worked out using the reducing balance method.

Calculate the company's total depreciation charge for 2021.

(10marks)

- b. Define the following terms:
- (i) trial balance
 - (ii) cashflow statement
 - (iii) statement of financial position
 - (iv) income statement
 - (v) statement of changes in equity.

(10marks)