



**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND
TECHNOLOGY
SCHOOL OF BUSINESS AND ECONOMICS
UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF
BUSINESS ADMINISTRATION
4TH YEAR 1ST SEMESTER 2013/2014 ACADEMIC YEAR**

COURSE CODE: ABA 439

COURSE TITLE: FINANCIAL MANAGEMENT

EXAM VENUE:LR

STREAM:(BBA -BSLM)

DATE: 22/8/14

EXAM SESSION:2.00 – 4.00PM

TIME: 2 HOURS

Instructions:

- 1. Answer questions 1 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.**

Ques. 1

The following information has been provided from the books of Integrity Supplies Ltd. for the period ended 30th June 2014.

Integrity Suppliers Ltd

<u>Item</u>	Kes 000
Salaries and Wages	1,050
Short term Bank OD	1,700
Administration Expenses	400
Purchases	1,890
Investment in Safari Ltd	7,680
Plant and Machinery (cost)	1,700
Accumulated depreciation (1 July 2013)	520
Donations	195
Trade Receivables	120
Provision for doubtful debts (1 July 2013)	7
Opening Inventory	170
Motor vehicles (Cost)	2,940
Accumulated depreciation (1 July 2013)	1,200
Training	206
Bank	2,900
Cash in hand	120
Utilities	340
Turnover	6,350
6% Preference Share Capital 2,000,000 shares of 2/= each	4,000

Trade Payables	97
Buildings	8,900
Dividends received from investments	460
Ordinary Share Capital 3,000,000 of sh 2 each	6,000
Profit and Loss account 1 st July 2013	6,700
Land	9,900
8% Debentures	12,000

Additional information

- 1 50% percent of the Debentures were redeemable in 6 months
- 2 The 6% Preference Shares Dividends was not paid and is non-cummulative
- 3 Prepayment for utilities was Kes 45,000
- 4 Depreciation on Plant and Machinery and Motor Vehicles is 10% and 25% per annum respectively.
- 5 A vehicle was purchased during the year for Kes 600,000
- 6 Year end stock is Kes 550,000
- 7 Accrued salaries and wages on 1st July 2013 was Kes 32,000 while the same on 30 June 2014 was Kes 20,000.
- 8 Corporate tax is 30% on profits.
- 9 Company policy is to make a general doubtful debtors provision of 10% on Trade receivables.
- 10 No provision had been made for 8% debenture interest
- 11 Closing Inventory Kes 550,000

You are required to

- a) briefly differentiate between managerial and financial accountin
- b) prepare a Comprehensive Income Statement (**10 marks**)
- c) Statement of Financial Position in accordance with International Financial Reporting Standards. (**10 marks**)
- d) what are the limitations of financial ratios(**5marks**)

Question 2. Recently, the government of Kenya marketed a sovereign bond which was oversubscribed. Briefly explain;

- a) A sovereign bond and oversubscription. (**4 marks**)
- b) Why the government would the have floated the bond abroad and not domestically. (**4marks**)
- c) Two broad sources of Finance are Equity and Debt. Briefly define each. In what circumstances is debt preferable to equity? (**4 marks**)
- d) Define a sell and lease back arrangement. (**4 marks**)
- e) Giving appropriate examples, explain any three cost accounting techniques. (**4 marks**)

Question 3. Jericho Ltd manufactures a single product *BEST*. A system for analysing variances arising from the matching of standards and actual performance was recently installed. The following information is available for the month of July 2013:

1. Standard costs were:

Direct materials 21,000 kilograms at Kes.9 a kilogram
Direct Labour 47,150 hours at Kes.7.20 per hour
Direct Variable manufacturing overheads Kes 139,500
Fixed Manufacturing overheads Kes 66,000
Administration and Distribution Expenses Kes 147,000

2. Actual manufacturing costs were:

Direct materials 19,200 kilograms at Kes.9.5 a kilogram.
Direct Labour 49,300 hours at Kes.7.30 per hour
Direct Variable manufacturing overheads Kes 140,000
Fixed Manufacturing overheads Kes 66,000
Administration and Distribution Expenses Kes 146,000

3. Budgeted sales were 20,000 units at Kes.50 a unit.

Actual sales were;

15,000 units at Kes.52 a unit

5,200 units at Kes.56 a unit

4. Ignore work in progress or stock of finished goods.

Required:

a. State the process of standard costing. **5 Marks**

b. A costing statement showing the standard/budgeted and actual gross and net profits or losses for July 2013. **5 Marks**

c. The following variances for July 2013.

i. Direct material cost variance, direct material price variance and direct material usage variance. **5 marks**

ii. Direct labour cost variance, direct labour rate variance and direct labour efficiency variance. **5 marks**

Question 4

a) What is the purpose of ratio analysis? **3 marks**

b) State four categories of ratios used to interpret financial statements and give an example under each category. **4 marks**

c) Using the data below compute 2 ratios in each category stated in b) above. **8 marks**

Income Statement	June 2014	June 2013
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Balance Sheet**June
2014****June
2013**

	Kes "000"	Kes "000"
Sales	5,900	5,100
Cost of sales	2,350	1,950
Gross Profit	3,550	3,150
Admin Expenses	700	650
Selling Expenses	1,000	950
Earnings before interest & tax	1,850	1,550
Interest Expense	200	120
Earnings before tax	1,650	1,430
Less Tax	300	200
Net Income after tax	<u>1,350</u>	<u>1,230</u>

**Retained Earnings
Statement**

Bal bfwd	1,260	102
add income for the year	1,350	1,230
	2,610	1,332
Less dividends paid		
Preferred	48	32
Ordinary	40	40
balance cfwd	<u>2,522</u>	<u>1,260</u>

	Kes "000"	Kes "000"
Non Current Assets		
Long term Investments	1,782	2,354
Property Plant & Equipment	3,212	2,700
	4,994	5,054
Current Assests		
Inventories	669	622
Trade Receivables	564	544
Prepayments	31	28
Cash	464	324
	1,728	1,518
Current Liabilities		
Redeemable Debentures	1,000	
Trade Payables	600	450
	1,600	450
Net Current Assets	128	1,068
Total Assets	5,122	6,122
Share Capital & Liabilities		
Ordinary Share Capital	2,000	2,000
Retained Earnings	2,522	1,260
	4,522	4,522
5% Preference Share Capital 1/=	600	600
	5,122	5,122
6% Redeemable debentures		1,000
	5,122	6,122
Total Liabilities	5,122	6,122

- d) For each category, make a comment on the company's financial position.
5 marks

Ques 5

- a) Define a budget and enumerate its purpose. **5 marks**
- b) State and explain 3 types of budgets. **5 marks**
- c) What are the criticism of budgeting? **5 marks**
- d) What are the major influences on pricing decisions? **5 marks**

