



UNIVERSITY EXAMINATIONS: 2013/2014
EXAMINATION FOR THE MASTERS OF BUSINESS ADMINISTRATION
(MBA) CORPORATE MANAGEMENT
FIN 5011 FINANCE FOR MANAGERS (KITENGELA TOWN)

DATE: APRIL, 2014

TIME: 3 HOURS

INSTRUCTIONS: Answer Question One and Any Other Three Questions

QUESTION ONE (31 MARKS)

- (a) Baraka enterprises limited operates in the leisure and entertainment industry and one of its activities is to promote concerts at locations throughout the country. The company is examining the viability of concerts in Kisumu

The following information is available

- Estimated fixed costs are shs. 1,200,000
- Variable costs is shs. 200 per ticket
- Selling price is shs 400 per ticket

Required:

- (i) The number of tickets to be sold to break even (5 Marks)
- (ii) How many tickets must be sold to earn shs 300 000 target profit? (5 Marks)
- (iii) What profit would result if 8000 tickets are sold? (5 Marks)
- (b) State and explain two classification of financial markets (8 Marks)
- (c) State and explain four fundamental accounting concepts. (8 Marks)

QUESTION TWO (23 MARKS)

The following trial balance was extracted from the books of , a sole proprietor as at 31st December 2009

	Sh '000'	sh '000'
Purchases/sales	20,640	38,200
Carriage inwards	580	
Carriage Outwards	1,360	
Salaries and Wages	2,920	
Advertising expenses	880	
Rent Expenses	1,800	
Directors' salaries	940	
Insurance	420	
Salesmen's commission	2,100	
Repairs `and maintenance	350	
Fixtures and fittings at cost	4,080	
Motor vehicles at cost	2,440	
Capital		11,770
Stock (1 January 2009)	6,300	
Trade debtors/trade creditors	9,200	3,200
Balance at bank		<u>840</u>
	<u>54,010</u>	<u>54,010</u>

Additional Information

Stock as at 31 December 2004 was valued as sh 7,280,000

Required:

- Trading, profit and loss account for the year ended 31 December 2009
- Balance sheet as at 31 December 2009.

(23 Marks)

QUESTION THREE (23 MARKS)

- List and explain five users of financial statements and their information needs. (10 Marks)
- List and Explain four different classification of costs. (10 Marks)
- State three limitation of ratio analysis (3 Marks)

QUESTION FOUR (23 MARKS)

The following are the summarized financial statements of Deweto Limited:

Trading profit and loss account for the year ended 31 October

	2002	2003
	Sh.000	Sh.000
Sales	93,500	111,350
Cost of sales	<u>(55,120)</u>	<u>(72,970)</u>
Gross profit	38,380	38,380
Expenses	<u>(26,230)</u>	<u>(23,960)</u>
Net profit before interest and tax	12,150	14,420
Loan interest	<u>(450)</u>	<u>(375)</u>
Net profit before tax	11,700	14,045
Taxation	<u>(3,510)</u>	<u>(5,413.5)</u>
Net profit after tax	8,190	8,631.5
Dividend	<u>(6,000)</u>	<u>(6,000)</u>
Retained profit	<u>2,190</u>	<u>2,631.5</u>

Balance Sheet as at 31 October

	2002		2003	
	<i>Sh. '000'</i>	Sh. '000'	Sh. '000'	Sh. '000'
Fixed assets:				
Freehold premises	10,500		10,500	
Plant and equipment	7,200		9,500	
Motor vehicles	<u>5,350</u>	23,050	<u>7,300</u>	27,300
Current assets:				
Stock	12,500		11,800	
Debtors	9,850		8,900	
Bank balance and cash in hand	<u>5,950</u>	28,300	<u>5,864.5</u>	26,564.5
<i>Current liabilities</i>				
Creditors	8,350		7,830	
Taxation	3,510		5,413.5	
Dividend	<u>3,000</u>	<u>(14,860)</u>	<u>3,000</u>	<u>(16,243.5)</u>
		<u>36,490</u>		<u>37,621</u>
Ordinary share capital		30,000		30,000
Reserves		<u>3,490</u>		<u>5,121</u>
		33,490		35,121
15% loan		<u>3,000</u>		<u>2,500</u>
		<u>36,490</u>		<u>37,621</u>

Note:

- 80% of the sales are on credit
- The stock as at 31 October 2001 was valued at Sh.13,000,000.

Required:

- Calculate six accounting ratios-for both 2002 and 2003 which you feel would be particular in assessing the profitability and liquidity performance of Electric Ltd. (18 Marks)
- Comment on Deweto Ltd.'s profitability and liquidity positions. (5 Marks)

QUESTION FIVE (23 MARKS)

- a) Explain five factors contributing to slow growth of capital markets in many emerging markets. (8 Marks)
- b) (i) Distinguish between budgeting and budgetary control (4 Marks)
- (ii) Fixed and flexible budgets (6 Marks)
- (iii) Cash budgets and operational budgets (5 Marks)

QUESTION SIX (23 MARKS)

- (a) Briefly explain the concept of activity based costing (ABC) (4 Marks)
- (b) Wiseman Ltd. Manufactures four products namely; A,B,C and D using the same plant and processes

The following data relate to the production activities of the company for the period ended 30 November 2008:

Product	Number of Units ("000")	Material cost Per unit (Sh.)	Direct labour per unit (hours)	Machine time per unit (hours)
A	500	5	0.5	0.25
B	5,000	5	0.5	0.25
C	600	16	2.0	1.00
D	7,000	17	1.5	1.50

Additional Information:

1. The production overhead costs incurred by the company over the period under consideration were analysed as follows:

	Sh.
Machine set-up costs	4,355,000
Ordering costs	1,920,000
Machine costs	37,424,000
Quality control costs	7,580,000
Maintenance costs	8,600,000

2. The production overheads were absorbed by the products based on a machine hourly rate

3. An investigation into the production overhead activities for the period revealed the following:

Product	Number of machine	Number of Material orders	Number of Maintenance	Number of production
set-ups		runs	runs	
A	1	1	2	2
B	6	4	5	10
C	2	1	1	3
D	8	4	4	12

Required:

- (i) The production overhead cost per unit using the machine hourly rate method. (5 Marks)
- (ii) The production cost per unit using the activity based costing (ABC) method, tracing the overhead costs to production unit by means of appropriate cost drivers (10 Marks)
- (iii) Briefly comment on the difference attributed to products A,B,C, and D in (b) (i) and (b) (ii) above. (4 Marks)