

Name \_\_\_\_\_

Index No. \_\_\_\_\_

3179

Candidate's Signature \_\_\_\_\_

2902/304

FINANCIAL ASPECTS OF MARKETING

Date \_\_\_\_\_

July 2015

Time: 3 hours



THE KENYA NATIONAL EXAMINATIONS COUNCIL

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

FINANCIAL ASPECTS OF MARKETING

3 hours

**INSTRUCTIONS TO CANDIDATES**

*Write your name and index number in the spaces provided above.*

*Sign and write the date of the examination in the spaces provided above.*

*This paper consists of SEVEN questions.*

*Answer any FIVE questions in the spaces provided in this question paper.*

*All questions carry equal marks.*

*Marks to each part of a question are as indicated.*

*Show all your working.*

*Do NOT remove any pages from this question paper.*

*Candidates should answer the questions in English.*

**For Examiner's Use Only**

Question	1	2	3	4	5	6	7	TOTAL SCORE
Candidate's Score								

**This paper consists of 30 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) The following balances relate to Tamani Traders as at 31 December 2013.

	<b>Ksh</b>
Premises	2,000,000
Capital	3,000,000
Motor vehicles	1,150,000
Accounts receivable	350,000
Accounts payable	276,000
Cash in hand	57,000
Bank overdraft	141,000
Loan from Hati Bank	1,000,000
Inventory	230,000
Net profit for the year	912,000
Equipment	700,000
Drawings	260,000
Short term fixed deposits	400,000
Furniture	182,000

Prepare a statement of financial position as at 31 December 2013. (8 marks)

- (b) Betam Traders retails product 'BR4'. The following information relates to the product:

Maximum demand	1,000 units per week
Minimum demand	600 units per week
Reorder period	2 - 4 weeks
Reorder quantity	5,000 units
Annual demand	40,000 units

- (i) Calculate the:
- (I) reorder level;
  - (II) minimum stock level;
  - (III) maximum stock level;
  - (IV) average stock level;
  - (V) stock turnover rate.
- (ii) The standard turnover rate for product BR4 is 13 times. Advise the management on the action to take. (12 marks)

2. (a) Pawa Manufacturers remunerates its employees using the Rowan bonus scheme. The following information relates to two employees, Genga and Hamisi, for the week ended 25 January 2015.

	<b>Genga</b>	<b>Hamisi</b>
Number of units produced	100	90
Time allowed per unit (hours)	0.6	0.6
Time taken (hours)	48	40

The basic hourly rate of pay is Ksh 50.

- (i) For each employee, calculate the:
- (I) basic pay;
  - (II) bonus pay;
  - (III) gross earning;
  - (IV) labour cost per unit.
- (ii) Comment on the efficiency of the employees. (10 marks)
- (b) Mutama intends to commence a wholesale business on 1 January 2015. The following information has been compiled for the preparation of a cash budget.

- The proprietor will bring in capital of Ksh 500,000 in cash on 1 January 2015.
- A quarterly rent of Ksh 120,000 will be paid in advance at the beginning of each quarter.
- A loan of Ksh 900,000 will be obtained from Tisa Bank in January 2015.
- The credit purchases and credit sales are expected to be as follows:

<b>2015</b>	<b>Purchases Ksh</b>	<b>Sales Ksh</b>
January	180,000	250,000
February	270,000	490,000
March	300,000	670,000

- Receipts from debtors are expected one month after sale and creditors will be paid one month after purchase.
- During the month of January 2015, cash sales are estimated to be Ksh 70,000.
- Monthly expenses of Ksh 150,000 will be payable at the end of every month.
- The proprietor will be withdrawing Ksh 140,000 for personal use at the end of every quarter.



3. (a) Explain **four** uses of financial ratio analysis. (8 marks)
- (b) The following estimates relates to Wananchi Manufacturers for the year ending 30 June 2014.

	<b>Ksh</b>
Production overheads	1,200,000
Direct materials	800,000
Direct labour	2,400,000
Direct labour hours	24,000
Machine hours	50,000
 Output (units)	 400,000

- (i) Calculate the overhead absorption rate using each of the following bases:
- (I) direct materials percentage;
  - (II) direct labour percentage;
  - (III) machine hours;
  - (IV) output.
- (ii) Job No. 274 was undertaken in July 2014. The following details relate to the job.

Direct materials	Ksh 13,900
Direct labour	Ksh 27,100
Machine hours	500

Determine the total cost of the job using machine hour basis to absorb overheads. (12 marks)

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4. (a) Explain **four** advantages of a budgetary control system in an organization. (8 marks)
- (b) On 1 January 2015, Farida started a business with Ksh 180,000 in cash. The following transactions took place during the month:

2015

- January 1      Opened a business bank account and deposited Ksh 125,000 of the cash.
- 2                The proprietor brought in a personal motor van worth Ksh 1,600,000 to be used in the business.
- 4                Bought furniture for Ksh 52,000 and paid by cheque.
- 5                Bought goods on credit from Mwanzo for KSh 86,000.
- 10               Sold goods for Ksh 24,000 and received cash.
- 15               Sold goods on credit to Kazi Limited for Ksh 45,000.
- 20               Paid office expenses amounting to Ksh 15,000 in cash.
- 27               The proprietor withdrew Ksh 20,000 from the bank for personal use.
- 28               Paid Mwanzo Ksh 60,000 by cheque.
- 30               Received the amount due from Kazi Limited by cheque.
- 31               Received a commission of Ksh 28,000 by cheque from a supplier.

Prepare ledger accounts to records the transactions above.

(12 marks)

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5. (a) Vewanda Limited manufactures two products V and W in a single process. The following information relates to production during the year ended 31 December 2013.

<b>Ksh</b>		
Joint process cost:		
Materials	376,000	
Labour	193,000	
Overheads	<u>51,000</u>	
	<u><u>620,000</u></u>	
<b>Product V      Product W</b>		
Output (unit)	120,000	80,000
Selling price per unit (Ksh)	7	5

- (i) Allocate the joint costs to the products using the sales value method.
- (ii) Determine the:
- (I) total profit for each joint product;
- (II) cost per unit of each joint product. (8 marks)
- (b) Rama Limited intends to invest in either project Q or project R. The initial capital outlay for each project is Ksh 4,000,000. The following information relates to the projects.

<b>Cash flows</b>	<b>Project Q</b>	<b>Project R</b>
<b>Year</b>	<b>Ksh</b>	<b>Ksh</b>
1	600,000	1,600,00
2	800,000	1,600,000
3	1,200,000	1,700,000
4	2,100,000	900,000
5	1,600,000	500,000

The company's cost of capital is 14%.

- (i) For each project, determine the:
- (I) payback period;
- (II) net present value (NPV);
- (ii) Advise the management on the project to invest in. (12 marks)

6. (a) Explain **five** advantages of using internal sources of finance by a company. (10 marks)
- (b) Elegon Limited manufactures chairs for garden sites. Currently, the firm is operating at 80% capacity. The following is the income statement for the year ended 31 December 2013:

	<b>Ksh</b>
Sales (50,000 chairs at Ksh 800 each)	<u>40,000,000</u>
Less: cost of sales	
Materials	8,000,000
Labour	3,500,000
Production overheads	
Variable	2,500,000
Fixed	5,000,000
Fixed administration expenses	<u>15,000,000</u>
	<u>34,000,000</u>
Net profit	<u><u>6,000,000</u></u>

The firm has received an order to supply 10,000 chairs to Harusi Gardens at Ksh 500 per chair which will utilize the idle capacity if accepted. Using marginal costing, prepare:

- (i) (I) An income statement at the current sales level;
- (II) An income statement if the order is accepted.
- (ii) Advise the management on whether the order should be accepted or not. (10 marks)



7. (a) Bidii Traders has two department A and B. The following are the income statements for each department for the year ended 31 December 2013.

	<b>Department A</b>	<b>Department B</b>
	<b>Ksh</b>	<b>Ksh</b>
Sales	2,000,000	1,400,000
Cost of sales	800,000	700,000
Gross profit	1,200,000	700,000
Expenses	700,000	308,000
Net profit	500,000	392,000
Capital employed	6,250,000	2,000,000

- (i) For each department, calculate the:
- (I) gross profit margin;
  - (II) net profit margin;
  - (III) return on capital employed (ROCE).
- (ii) The management intends to expand one of the departments. Advise the management on the department to expand based on the ratios calculated in (i) above. (8 marks)
- (b) Latel Limited manufactures a single product. The following is the standard material cost and labour cost per unit.

	<b>Ksh</b>
Materials 2 kg at Ksh 60 per kg	120
Labour 0.5 hours at Ksh 80 per hour	40

During the year the company had budgeted to produce and sell 2,000 units. The budgeted selling price is Ksh 550 per unit. The actual production and sales was 1,800 units. The actual costs and revenues were as follows:

	<b>Ksh</b>
Sales	1,026,000
Materials (4,500 kg)	252,000
Labour (1,260 hours)	94,500

Calculate:

- (i) material price variance;
- (ii) material usage variance;
- (iii) labour rate variance;
- (iv) labour efficiency variance;
- (v) sales price variance;
- (vi) sales volume variance.

(12 marks)

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