



MACHAKOS UNIVERSITY

University Examinations for 2022/2023 Academic Year

SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM

MANAGEMENT

DEPARTMENT OF BUSINESS ADMINISTRATION AND FINANCE

THIRD YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE (FINANCE OPTION)

APP309: FINANCE MANAGEMENT FOR POLICY MAKERS

DATE:

TIME:

INSTRUCTIONS

ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS

QUESTION ONE (COMPULSORY) (30MARKS)

- a) Kikomi limited is a manufacturer of children garments. The sales vary seasonally and are higher in the month of May. The management wishes to prepare a cash budget from the period January through June 2017. The sales estimates are as follows: -

Month	Sale estimates (shs.)	Credit purchases (shs)
January	84,000	110,000
February	156,000	170,000
March	132,000	160,000
April	228,000	240,000
May	288,000	250,000
June	108,000	260,000

You are given the following additional information: -

- i) Sales for December were shs. 60,000 and purchases shs. 120,000.
- ii) Credit sales are 70% and cash sales 30% of total sales
- iii) There is a time lag of one month between credit sales and its collection. No bad debts are expected.
- iv) Payments for purchases is 60% in the month of purchase and balance in the following month.
- v) Monthly administration expenses are: shs.720.
- vi) As at January 2017, there was a cash balance of shs.1,200,000.

Required:

Prepare a cash budget from the months January to June 2017. (10mks)

b) The following financial statements relate to XYZ Company

Assets	Shs	Liabilities and net worth	Shs
Cash	28,500	Trade creditors	116,250
Debtors	270,000	Notes payable (9%)	54,000
Stock	<u>649,500</u>	Other current liabilities	<u>100,500</u>
Total current assets	948,800	Long term debt (10%)	300,000
Net fixed assets	<u>285,750</u>	Net worth	<u>663,000</u>
	<u>1,233,750</u>		<u>1,233,750</u>

Income statement for the year ended 31/03/2005

	Shs.
Sales	1,972,500
Less: Cost of goods sold	<u>1,368,000</u>
Gross profit	604,500
Selling and administration expenses	498,750
Earnings before interest and tax	105,750
Interest expense	<u>34,500</u>
	71,250
Estimated taxation (40%)	28,500

Earnings after interest and tax 42,750

Required: calculate:

- i) Current ratio and return on equity (2 marks)
 - ii) Inventory turnover ratio (2 marks)
 - iii) Time interest earned ratio (2 marks)
 - iv) Total assets turnover (2 marks)
 - v) Net profit margin (2 marks)
- c) The above company operates in an industry whose norms are as follows:

Ratio	Industry norm
Inventory turnover	6.2 times
Time interest earned ratio	5.3 times
Total Assets turnover	2.2 times
Net profit margin	3%

Required: Comment on the revelation made by the ratio that you have computed on part (b) above, when compared with industry average. (4 marks)

- d) Explain the purpose of financial reporting. (3 marks)
- e) Explain the purpose of a cash flow statement. (3 marks)

QUESTION TWO (20 MARKS)

- a) Explain the meaning of a public budget and its importance.
- b) Explain the characteristics of public goods..
- c) Explain the purpose of ratios.
- d) Identify and explain five users of accounting information.

QUESTION THREE (20 MARKS)

- a) Explain the meaning of public expenditure and its justification.
- b) Discuss the importance of public private partnership.
- c) Explain the importance of gender budgeting.
- d) Discuss the examples of gender and gender responsive budgeting.

QUESTION FOUR (20 MARKS)

From the following trial balance of B Lane after his first year's trading, you are required to draw up a trading and profit and loss account for the year ended 30 June 20X8. A balance sheet is not required.

Trial Balance as at 30 June 2018

	Debit	Credit
Sales		265,900
Purchases	154,870	
Rent	4,200	
Lighting and heating expenses	530	
Salaries and wages	51,400	
Insurance	2,100	
Buildings	85,000	
Fixtures	1,100	
Debtors	31,300	
Sundry expenses	412	
Creditors		15,910
Cash at bank	14,590	
Drawings	30,000	
Vans	16,400	
Motor running expenses	4,110	
Capital		114,202
	<u>396,012</u>	<u>396,012</u>

Stock at 30 June 2018 was sh16,280

QUESTION FOUR

The following is a trial balance of M/s Kaushal Traders

TRIAL BALANCE

Debit balances		Credit balances	
Opening stock on 1st April, 2011	16,000	Capital	80,000
Purchases	75,000	Sales	200,000
returns	5,000	Purchases returns	2,000
		Sales	

Carriage inwards	1,500	Discount	500
Plant and Machinery	40,000	Sundry creditors	10,000
Furniture and fixtures	5,000	Bills payable	1,500
Freehold property	45,650		
Cash in hand	5,000		
Carriage outwards	400		
Wages	30,000		
Salaries	18,000		
Lighting (factory)	800		
Sundry debtors	28,000		
Travelling expenses	1,200		
Rent and taxes	4,800		
Drawings	5,000		
Insurance	450		
General expenses	<u>12,200</u>		
	<u>294,000</u>		<u>294,000</u>

Additional information (Adjustments)

- i.) Stock on 31st March 2012 was valued at Sh38,000 (market value Sh20,000).
- ii) Wages amounting to Sh2,000 and salaries amounting to sh1,500 are outstanding.
- iii) Prepaid insurance amounted to Sh150.
- iv) Provide depreciation on plant and machinery at 5% and on furniture and fixtures at 10%.

Required: Prepare a:

- (a) Trading, Profit and Loss Account for the year ended 31st March 2012.
- (b) Balance Sheet as at that date.

QUESTION FIVE (20 MARKS)

- a) Explain the meaning of public debt management (PDM)
- b) Explain the guidelines to PDM
- c) Demonstrate the linkages of PDM with Monetary and Fiscal policy.