2902/304
3179
FINANCIAL ASPECT OF MARKETING
July 2017
Time: 3 hours

THE KENYA NATIONAL EXAMINATIONS COUNCIL

DIPLOMA IN SALES AND MARKETING
BUSINESS EDUCATION SINGLE AND GROUP CERTIFICATE EXAMINATIONS

FINANCIAL ASPECT OF MARKETING

3 hours

INSTRUCTIONS TO CANDIDATES

*This paper consists of **SEVEN** questions.*
*Answer any **FIVE** questions in the answer booklet provided.*
All questions carry equal marks.
Candidates should answer the questions in English.

This paper consists of 7 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) Explain **four** methods that can be used in setting the transfer prices of goods by companies. (8 marks)

(b) Kamau intends to borrow Ksh 1,500,000 to finance either project A or project B. The annual interest payable is 20%. The following are the expected cash inflows.

Year	**Project A** **Ksh**	**Project B** **Ksh**
1	600,000	750,000
2	720,000	830,000
3	1,000,000	900,000
4	500,000	500,000
5	550,000	450,000

(i) Calculate the Net Present Value (NPV) for project A and project B.

(ii) Advise Kamau on the project to invest in.

(12 marks)

2. (a) Explain **four** limitations of budgetary control and planning. (8 marks)

(b) The following transactions relate to company XYZ Limited for the month of July 2016.

July	1	Opening stock 500 units at Ksh 200
	4	Purchased 400 units at Ksh 210
	6	Issued 600 units
	8	Purchased 800 units at Ksh 240
	9	Issued 500 units
	13	Issued 300 units
	24	Purchased 500 units at Ksh 250
	28	Issued 400 units

Prepare a stores ledger account using the Last In First Out (LIFO) method of stock valuation, and show the value of the closing stock. (12 marks)

3. (a) Mwanzo Limited makes and sells a single product for which variable costs are as follows:

	Ksh
Direct materials	100
Direct labour	80
Variable production overheads	60
	240

The selling price per unit is Ksh 300 and the total fixed cost per annum is Ksh 720,000. The budgeted output level is 14,000 units.

(i) Calculate the:

(I) break-even point in units.

(II) units to produce in order to meet a target profit of Ksh 1,080,000.

(II) margin of safety in units.

(ii) Advise the company on which costs to reduce in order to achieve a lower break-even point.

(8 marks)

(b) The following trial balance was extracted from the books of Mulolongo Dealers Limited as at 31 December 2016.

Particulars	**Debit (Ksh)**	**Credit (Ksh)**
Opening inventory	198,000	
Purchases	1,200,000	
Sales		1,933,000
Return outwards		100,000
Return inwards	33,000	
Carriage inwards	60,000	
Carriage outwards	20,000	
Rent	40,000	
Land	1,000,000	
Insurance	55,000	
Loan		750,000
Accounts payable		150,000
Accounts receivable	170,000	
Cash	500,000	
Overdraft		67,000
Building (cost)	1,500,000	
Water expenses	70,000	
Capital		1,846,000
	4,846,000	4,846,000

Additional information:

- Inventory on 31 December 2016 was valued at Ksh 20,400.
- Building was to be depreciated at 10% per annum on cost.

Prepare income statement for the year ended 31 December 2016.

(12 marks)

4. (a) Explain **five** factors that should be considered in deciding on the most suitable method of remuneration for employees. (10 marks)

(b) Explain **five** actions that are available to a company to minimise the inherent risk with debtors. (10 marks)

5. (a) The cost of a service department of a firm for the last five years are as follows:

Period	Cost (Ksh)	Activity level in hours
1	300,000	21,000
2	345,000	24,000
3	291,000	18,000
4	333,000	23,100
5	343,800	24,600

Using the high-low method, estimate the costs for period 6 if the activity level is expected to be 23,000 hours. (10 marks)

(b) Paukwa Limited has 3 production departments and two service departments. Overheads for the year 2016 are as follows:

Production departments

	Ksh
Machining	800,000
Fishing	400,000
Assembly	200,000
Service departments	
Materials handling	200,000
Inspection	100,000

The overheads of service cost centres are charged out as under.

	Departments				
	Machinery	Finishing	Assembly	Materials handling	Inspection
Materials handling	30%	20%	40%	–	10%
Inspection	20%	30%	30%	20%	–

Calculate the total overhead chargeable to the three production departments, using the repeated distribution method. (10 marks)

6. (a) Identify **four** distinguishing features between ordinary shares and preference shares, as sources of business finance. (8 marks)

(b) Kiwanda Limited makes a single product; K127. The following are the standard costs per unit.

Direct materials 5 kg at Ksh 100 per kg.
Direct labour 3 hours at Ksh 100 per hour.
Variable overheads 3 hours at Ksh 50 per hour.
Fixed overheads 3 hours at Ksh 40 per hour.
Budgeted output 12,000 units.

For the last quarter of 2016, the following figures were obtained

Actual output	10,000 units
Materials 65,000 kg, costing	Ksh 7,475,000
Labour costs 37,000 hours, costing	Ksh 3,885,000
Variable overheads	Ksh 1,924,000
Fixed overheads	Ksh 1,554,000

Calculate:

(i) material price and usage variance.

(ii) labour rate and efficiency variances.

(iii) fixed overhead expenditure variance.

(12 marks)

7. (a) The following balances were extracted from the accounting books of Bongo Traders for the year 31 December 2015 and 2016.

	2015	2016
	Ksh	Ksh
Sales	150,000,000	170,000,000
Cost of sales	80,000,000	100,000,000
Total assets	800,000,000	1,200,000,000
Current assets	400,000,000	500,000,000
Current liabilities	150,000,000	200,000,000
Net income	20,000,000	30,000,000
Purchases	100,000,000	150,000,000
Debtors (Already included in current assets value)	50,000,000	60,000,000

(i) Calculate the following ratios for 2015 and 2016.

(I) Net profit margin
(II) Mark up margin
(III) Current ratio
(IV) Debtors collection period.

(ii) Comment on the performance of the company.

(8 marks)

(b) Jua Kali Processing Limited produces a product which undergoes various processes before becoming a finished good. The following data relates to process 1.

Input materials 400,000 litres at Ksh 95.5 per litre	
Labour costs	Kshs 26,250,000
Overhead costs	Ksh 24,235,000
Closing work in progress	20,000 litres
Actual output	350,000 litres

Normal loss is 5% of input and scrap value per unit is Ksh 10.

Closing work-in-progress is complete for materials but only 75% complete for labour and 50% complete for overheads.

The company uses FIFO method to value work in progress.

Prepare:

(i) statement of equivalent production.

(ii) statement of cost per unit.

(iii) Process 1 account.

(12 marks)

Table A **Present Value of Sh 1 Received at the End of n Periods:**

$PVIF_{r,n} = 1/(1+r)^n = (1+r)^{-n}$

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	12%	14%	15%	16%	18%	20%	24%	28%	32%	36%
1	.9901	.9804	.9709	.9615	.9524	.9434	.9346	.9259	.9174	.9091	.8929	.8772	.8696	.8621	.8475	.8333	.8065	.7813	.7576	.7353
2	.9803	.9612	.9426	.9246	.9070	.8900	.8734	.8573	.8417	.8264	.7972	.7695	.7561	.7432	.7182	.6944	.6504	.6104	.5739	.5407
3	.9706	.9423	.9151	.8890	.8638	.8396	.8163	.7938	.7722	.7513	.7118	.6750	.6575	.6407	.6086	.5787	.5245	.4768	.4348	.3975
4	.9610	.9238	.8885	.8548	.8227	.7921	.7629	.7350	.7084	.6830	.6355	.5921	.5718	.5523	.5158	.4823	.4230	.3725	.3294	.2923
5	.9515	.9057	.8626	.8219	.7835	.7473	.7130	.6806	.6499	.6209	.5674	.5194	.4972	.4761	.4371	.4019	.3411	.2910	.2495	.2149
6	.9420	.8880	.8375	.7903	.7462	.7050	.6663	.6302	.5963	.5645	.5066	.4556	.4323	.4104	.3704	.3349	.2751	.2274	.1890	.1580
7	.9327	.8706	.8131	.7599	.7107	.6651	.6227	.5835	.5470	.5132	.4523	.3996	.3759	.3538	.3139	.2791	.2218	.1776	.1432	.1162
8	.9235	.8535	.7894	.7307	.6768	.6274	.5820	.5403	.5019	.4665	.4039	.3506	.3269	.3050	.2660	.2326	.1789	.1388	.1085	.0854
9	.9143	.8368	.7664	.7026	.6446	.5919	.5439	.5002	.4604	.4241	.3606	.3075	.2843	.2630	.2255	.1938	.1443	.1084	.0822	.0628
10	.9053	.8203	.7441	.6756	.6139	.5584	.5083	.4632	.4224	.3855	.3220	.2697	.2472	.2267	.1911	.1615	.1164	.0847	.0623	.0462
11	.8963	.8043	.7224	.6496	.5847	.5268	.4751	.4289	.3875	.3505	.2875	.2366	.2149	.1954	.1619	.1346	.0938	.0662	.0472	.0340
12	.8874	.7885	.7014	.6246	.5568	.4970	.4440	.3971	.3555	.3186	.2567	.2076	.1869	.1685	.1372	.1122	.0757	.0517	.0357	.0250
13	.8787	.7730	.6810	.6006	.5303	.4688	.4150	.3677	.3262	.2897	.2292	.1821	.1625	.1452	.1163	.0935	.0610	.0404	.0271	.0184
14	.8700	.7579	.6611	.5775	.5051	.4423	.3878	.3405	.2992	.2633	.2046	.1597	.1413	.1252	.0985	.0779	.0492	.0316	.0205	.0135
15	.8613	.7430	.6419	.5553	.4810	.4173	.3624	.3152	.2745	.2394	.1827	.1401	.1229	.1079	.0835	.0649	.0397	.0247	.0155	.0099
16	.8528	.7284	.6232	.5339	.4581	.3936	.3387	.2919	.2519	.2176	.1631	.1229	.1069	.0930	.0708	.0541	.0320	.0193	.0118	.0073
17	.8444	.7142	.6050	.5134	.4363	.3714	.3166	.2703	.2311	.1978	.1456	.1078	.0929	.0802	.0600	.0451	.0258	.0150	.0089	.0054
18	.8360	.7002	.5874	.4936	.4155	.3503	.2959	.2502	.2120	.1799	.1300	.0946	.0808	.0691	.0508	.0376	.0208	.0118	.0068	.0039
19	.8277	.6864	.5703	.4746	.3957	.3305	.2765	.2317	.1945	.1635	.1161	.0829	.0703	.0596	.0431	.0313	.0168	.0092	.0051	.0029
20	.8195	.6730	.5537	.4564	.3769	.3118	.2584	.2145	.1784	.1486	.1037	.0728	.0611	.0514	.0365	.0261	.0135	.0072	.0039	.0021
25	.7798	.6095	.4776	.3751	.2953	.2330	.1842	.1460	.1160	.0923	.0588	.0378	.0304	.0245	.0160	.0105	.0046	.0021	.0010	0005
30	.7419	.5521	.4120	.3083	.2314	.1741	.1314	.0994	.0754	.0573	.0334	.0196	.0151	.0116	.0070	.0042	.0016	.0006	.0002	.0001
40	.6717	.4529	.3066	.2083	.1420	.0972	.0668	.0460	.0318	.0221	.0107	.0053	.0037	.0026	.0013	.0007	.0002	.0001	*	*
50	.6080	.3715	.2281	.1407	.0872	.0543	.0339	.0213	.0134	0085	.0035	.0014	.0009	.0006	.0003	.0001	*	*	*	*
60	.5504	.3048	.1697	.0951	.0535	.0303	.0173	.0099	.0057	.0033	.0011	.0004	.0002	.0001	*	*	*	*	*	*

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