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2902/304

**FINANCIAL ASPECTS OF MARKETING**

November 2017

Time: 3 hours



**THE KENYA NATIONAL EXAMINATIONS COUNCIL**

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

**FINANCIAL ASPECTS 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 8 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 are the income statements of branch A and branch B of Tama Enterprises for the year ended 31 December 2016.

	Branch A	Branch B
	Ksh.	Ksh.
Sales	4,800,000	3,400,000
<u>Less cost of sales</u>		
Opening inventory	900,000	600,000
Purchases	<u>2,700,000</u>	<u>2,900,000</u>
	3,600,000	3,500,000
Closing inventory	<u>(2,400,000)</u>	<u>(1,800,000)</u>
	1,200,000	1,700,000
Gross profit	3,600,000	1,700,000
Less expenses	<u>(2,700,000)</u>	<u>(850,000)</u>
Net profit	<u>900,000</u>	<u>850,000</u>

- (i) For each firm, calculate:
- I. gross profit margin;
  - II. net profit margin;
  - III. average inventory;
  - IV. inventory turnover rate.
- (ii) Advise the management on the profitability of the branches. (10 marks)
- (b) Rateq Traders buys and sells product P4. The following information relates to the product:

Annual demand	88,000 units.
Reorder quantity	7,000 units.
Minimum consumption	400 units per day.
Maximum consumption	1,000 units per day.
Reorder period	3 - 5 days.

Calculate:

- (i) reorder level.
- (ii) minimum stock level.
- (iii) maximum stock level.
- (iv) average stock level.
- (v) stock turnover period in days.

(Take 1 year = 365 days)

(10 marks)

2 (a) Explain each of the following accounting concepts:

- (i) money measurement;
- (ii) prudence;
- (iii) dual aspect;
- (iv) business entity.

(8 marks)

(b) Mento Limited has three production departments, X, Y and Z. The following are the estimated overheads for the year 2016.

	Ksh
Rent	150,000
Supervision	400,000
Electricity	75,000
Depreciation of machinery	120,000
Canteen expenses	25,000
Insurance of machinery	60,000
Insurance of inventory	24,000

Additional information:

Departments	X	Y	Z
Floor area (square metres)	450	150	150
Number of employees	24	12	24
Book value of machinery (Ksh)	600,000	400,000	200,000
Average inventory (Ksh)	320,000	80,000	80,000

Prepare an overhead analysis sheet.

(12 marks)

3 (a) Explain **four** features of an efficient inventory control system.

(8 marks)

(b) Manga Traders had the following balances as at 1 May, 2017.

	Ksh
Furniture	240,000
Accounts receivable - Betty	83,500
Accounts payable - Roni	51,400
Cash at bank	47,900
Capital	340,000
Cash in hand	20,000

The following transactions took place during the month of May 2017.

2017

Month

- May 1 Purchased equipment worth Ksh. 22,000 by cheque.
- 2 Bought goods for Ksh. 310,000 from Ali on credit.
- 3 Sold goods for Ksh. 76,500 in cash.
- 4 Paid rent of Ksh. 36,000 by cheque.
- 8 The proprietor took Ksh. 10,000 cash for personal use.
- 10 Betty settled her account in full by cheque.
- 15 Sold goods for Ksh. 142,000 to Dana as credit.
- 20 The proprietor brought in a table valued at Ksh. 6,000 to used in the business.
- 31 Paid wages amounting to Ksh. 18,000 in cash.

From the information above, prepare ledger accounts.

(12 marks)

4.

- (a) Tekat Limited manufactures a single product. The following is the standard variable cost per unit of the product.

	Ksh
Direct materials (3 kg @ Ksh. 18 per kg)	54
Direct labour (0.2 hours @ Ksh. 60 per hour)	<u>12</u>
	<u>66</u>

During the month of April 2015, 2,000 units were produced. The following information relates to the production.

	Ksh.
Direct materials (6,400 kg at Ksh. 15 per Kg)	96,000
Direct labour (380 hours at Ksh. 65 per hour)	24,700

Calculate:

- (i) direct material price variance;
- (ii) direct material usage variance;
- (iii) direct labour rate variance;
- (iv) direct labour efficiency variance.

(8 marks)

*d - credit*  
*2000 kg x 18 = 36000*

*26,1400*  
*211,700*

- (b) Fames Enterprises is considering launching a new product in the market. The initial capital outlay is Ksh. 1,250,000.

The following are the expected cash inflows.

Year	Ksh
1	30,000
2	120,000
3	400,000
4	500,000
5	200,000
6	80,000

The cost of capital is 12%.

- (i) Determine the:
- Payback period;
  - Net Present Value (NPV).
- (ii) Using the Net Present Value (NPV) method, advise the management on whether the product should be launched or not. (12 marks)

5. (a) Rama and Polyn are employees of Haraka manufactures. The following relates to the employees during the second week of July 2017:

	Rama	Polyn
Number of units produced	150	220
Time allowed per unit (hours)	$\frac{1}{3}$	$\frac{1}{4}$
Hours worked	48	50
Hourly rate (Ksh)	70	60

The firm remunerates its workers using Halsey bonus scheme. The normal working hours are 45. Overtime is paid at a rate of a time and a half.

For each worker, determine:

- the basic pay;
  - the overtime pay;
  - the bonus pay;
  - the gross wages.
- (10 marks)

(b) Jaman Manufacturers make a single product. The variable cost per unit is Ksh. 40. The selling price per unit is Ksh. 70. The annual fixed costs are Ksh. 1,200,000. The current production is 50,000 units.

Determine the:

- (i) breakeven point in units;
  - (ii) break even point in shillings;
  - (iii) profit at current production level;
  - (iv) margin of safety in units;
  - (v) margin of safety in shillings.
- (10 marks)

Handwritten notes: 12, 27, 23, 4, 11, 12, 10

6. (a) Explain **four** advantages of retained earnings as a source of finance to a business. (8 marks)

(b) Moran Trager intends to start business on 1 January 2017 with cash of Ksh. 350,000. The proprietor has made the following estimates:

	Sales	Credit Purchases	Salaries	Electricity
2017	Ksh	Ksh	Ksh	Ksh
January	150,000	70,000	60,000	3,000
February	170,000	90,000	60,000	3,300
March	200,000	80,000	35,000	3,500

Additional information:

- 60% of the sales are expected to be in cash while the balance will be received in the following month.
- Creditors are expected to be paid in the month following the month of purchase.
- Salaried will be paid on monthly basis.
- Electricity will be paid at the end of every month.
- A sales promotion event of Ksh. 48,000 will be undertaken and paid for in January 2017.
- A motor vehicle will be purchased in January 2017 for Ksh. 350,000 by cheque.
- A quarterly rent of Ksh. 36,00 will be paid in January 2017.
- The proprietor will sell a piece of his personal land in March 2017 for Ksh. 200,000 and deposit the proceeds in the business bank account.

- (i) Prepare a cash budget for the month of January, February and March 2017.
- (ii) Advise the proprietor on the action to take on the cash balances obtained in (i) above. (12 marks)

7. (a) Minek Limited process three products P, Q and R in a joint cost operation. The following information relates to the production during the year ended 31 December 2016.

Product	Output (Unit)
P	200,000
Q	160,000
R	40,000

Additional information:

- The joint processing cost was Ks. 3,200,000.
- Joint costs are apportioned to other products using output basis.
- The following are the selling prices of the products.

Product	Selling price per unit. Ksh
P	22
Q	20
R	25

- All products were sold during the year.

Determine the:

- (i) joint cost allocated to each product;
- (ii) profit for each product;
- (iii) total profit.

(8 marks)

- (b) The following is the statement of financial position of Kilo Traders as at 31 December 2016:

	Ksh
<b>Assets</b>	
Premises	7,500,000
Inventory	1,600,000
Accounts receivable	3,400,000
Cash	<u>200,000</u>
	<u>12,700,000</u>
<b>Capital and liabilities</b>	
Capital	9,500,000
Accounts payable	2,700,000
Bank overdraft	<u>500,000</u>
	<u>12,700,000</u>

Industry average ratios are:

Current ratio 2.8 : 1

Acid test ratio 1.5 : 1

(i) Calculate:

- I. gross working capital;
- II. net working capital;
- III. current ratio;
- IV. acid test ratio.

(ii) Advise the management on the action to take based on the liquidity position of the firm. (12 marks)

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