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BUSINESS MANAGER LEVEL 6

BUS/OS/BM/CR/06/6/A

MANAGE FINANCIAL OPERATIONS

July/August 2024



**TVET CURRICULUM DEVELOPMENT, ASSESSMENT AND CERTIFICATION
COUNCIL (TVET CDACC)**

WRITTEN ASSESSMENT

TIME: 3 HOURS

INSTRUCTIONS TO CANDIDATE

1. This paper consists of two sections; **A** and **B**
2. Attempt **ALL** questions as guided in each section
3. Marks for each question are indicated in the bracket ().
4. You are provided with a separate answer booklet to answer the questions
5. Do not write in this question paper.

**This paper consists of seven (7) printed pages
Candidates should check the question paper to ascertain that all pages
are printed as indicated and that no questions are missing**

Turn over

SECTION A: (40 MARKS)

Answer all questions in this section.

1. Preparing a financial plan involves considering various users. List **two** users who utilizes the financial plan report for decision-making purposes. (2 Marks)
2. Useful financial information possesses key qualities that enable stakeholders to make informed decisions about an organization's financial health. State **four** qualities of useful financial information. (4 Marks)
3. The role of a business finance manager in a modern organization is vital in all the activities of any business firm. Highlight **three** such roles of the officer. (3 Marks)
4. Financial planning involves setting and achieving specific financial goals. State **two** benefits of the plan to an organization. (2 Marks)
5. A corporate governance report provides stakeholders with information about how a company is governed. Give **three** objectives of a good corporate governance reporting. (3 Marks)
6. Majority of the organisations face drawbacks on its adoption of budgeting systems. Outline **four** such kinds of drawbacks. (4 Marks)
7. Variance reports are crucial tools used during the monitoring and implementation of a budget. State **three** uses of this report during the exercise. (3 Marks)
8. Cash flow statements provide valuable insights into an organization's liquidity, it also poses a number of limitations that stakeholders should be aware of. Highlight **four** such limitations of the statements. (4 Marks)
9. As a finance manager you have been tasked with the duty to formulate a working capital policy for managing trade receivables within an organization. State **four** factors to consider during the formulation process. (4 Marks)
10. Net profit margin is a financial metric used to provides valuable insights into an organisation financial performance. Mention **three** reasons why shareholders are interested in the Net profit Margin of an organization. (3 Marks)
11. Mr.Mjomba has been tasked with implementation of robust financial reporting and auditing functions within an organization. Identify **four** importance of this move. (4 Marks)
12. Ethical responsibilities arise not as a result of legal requirements but as a result of moral imperative for organizations to operate in an ethical and fair manner. Name **four** elements of business ethics in managing financial operations. (4 Marks)

SECTION B (60 MARKS)

Answer question 13 and any other two questions in this section.

13. Financial statements shows the true and fair view of any organization, therefore all organizations are encouraged to prepare their financial statements at the end of each and every financial year for compliance. Farida Enterprise Trader has been able to comply with all the regulations by keeping proper books of Accounts yearly. Their balance sheet for the financial year poses clear outlines of all financial transactions which has been relied upon by various stakeholders worldwide upon the publication on all media platforms.

(a) The following trial balance was extracted from the books of Farida Enterprise trader at 31 December 2023.

	Sh.	Sh.
Capital		5,920,000
Drawings	1,200,000	
Trade debtors	1,808,400	
Trade creditors		2,168,000
Sales		8,892,600
Purchases	4,188,400	
Stock – 1 January 2023	2,533,300	
Sales returns	144,700	
Purchases returns		218,800
Cash in hand	56,800	
Balance at bank	1,056,400	
Warehouse expenses	640,000	
Discounts allowed	90,200	
Discounts received		170,000
Office salaries	600,000	
Office lighting	188,800	
Rates	108,200	
Motor vehicle (cost)	1,280,000	
Freehold premises (cost)	2,600,000	

Fixtures and fittings	576,000	
General expenses	142,400	
Insurance	28,000	
Provision for bad debts		50,000
Motor vehicle expenses	150,400	
Bad debts written off	28,800	
	<u>17,420,800</u>	<u>17,420,800</u>

Additional information:

- i. Stock as at 31 December 2023 was valued at Sh. 1,760,000
- ii. Depreciation on fixtures and fittings and the motor vehicle is to be provided at the rate of 5% and 10% per annum on cost respectively.
- iii. Rates prepaid as at 31 December 2023 amounted to Sh.25,600.
- iv. Unexpired insurance as at 31 December 2023 is to be made at $2\frac{1}{2}$ of the trade debtors,

Required:

- i. Income statement for the year ended 31 December 2023. (8 Marks)
- ii. Statement of financial position as at 31 December 2023. (4 Marks)

(b) Published financial statements include key components that provide comprehensive information about an organization's financial performance. Describe **Four** such components of a complete set of financial statement. (8 Marks)

14. (a) Foper Limited currently operates a "top-down" budgeting system where senior business managers impose budgets on departmental managers. The company is now considering allowing departmental managers to participate in the setting of their own budgets. Argue the case for the participation of departmental managers in the preparation of their budgets. (8 Marks)

(b) You are in charge of making forecasts and preparing budgets of Kamukunji Limited. You have been supplied with the following cost and revenue forecast and details of payment;

Forecast for revenue and cost for half year 2023

	July	August	September	October	November	December
	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"
Direct material						
purchases	112,000	100,000	135,000	90,000	67,000	79,000
Wages	90,000	80,000	100,000	72,000	54,000	63,000
Overheads						
Production	34,000	32,000	40,000	45,000	36,000	40,000
Administrative	22,000	20,000	27,000	24,000	25,000	27,000
Selling and						
distribution	13,000	11,000	18,000	13,000	11,000	16,000
Sales	360,000	350,000	440,000	350,000	360,000	360,000

Additional information:

1. Cash balance on 1 October 2023 is expected to be Sh. 90,000,000.
2. Period of credit allowed by suppliers average two months.
3. Debentures worth Sh.125,000,000 are expected to be issued in November 2023 and the amount will be received in the same month.
4. A new machine will be installed in September 2023 at a cost of Sh.150,000,000 and payment is expected in November 2023.
5. Sales commission of 3% is payable after one month of sale.
6. A dividend of Sh. 100,000,000 is paid in December 2023.
7. There is a delay of one month in the payment of overheads and wages.
8. 20% of debtors pay cash, receiving a cash discount of 4% and 75% of debtors pay within one month and receive 2.5% discount while the remaining debtors pay within two months without a discount.

Required

A cash budget on a monthly basis for the months of October to December 2023.

(12 Marks)

15. (a) Ratios are powerful tools for analyzing financial statements as they provide valuable insights into various aspects of a company's financial performance. Explain **Four** advantages of ratios as a tool for analysing financial statements. (8 Marks)

(b) The summarized financial statements of Mchungaji Limited are as follows:

Income statement for the year endend 31 December 2023

	2022	2023
	Sh. '000'	Sh. '000'
Sales	20,000	28,000
Cost of sales	<u>(15,000)</u>	<u>(21,000)</u>
Gross profit	5,000	7,000
Administrative expenses	<u>(3,800)</u>	<u>(4,600)</u>
Debenture interest		<u>(400)</u>
Net Profit	<u>1,200</u>	<u>2,000</u>

Statement of financial position as at 31 December 2023

	2022	2023
	Sh. '000'	Sh. '000'
Asset:		
Non-current assets (net book value)	<u>11,000</u>	<u>14,000</u>
Current assets:		
Inventories	2,000	3,000
Trade and other receivables	2,500	2,800
Balance at bank	=	<u>500</u>
	<u>4,500</u>	<u>6,300</u>
Total assets	<u>15,500</u>	<u>20,300</u>
Equity and Liabilities:		
Capital and reserves:		
Issued and fully paid		
1,000,000 ordinary shares of Sh.10 each	10,000	10,000
Revenue reserves	<u>3000</u>	<u>14,100</u>

	<u>13,000</u>	<u>14,100</u>
Non current liabilities		
8% debentures	=	<u>5,000</u>
Current liabilities		
Trade and other payables	1,500	1,200
Bank overdraft	<u>1,000</u>	=
	<u>2,500</u>	<u>1,200</u>
Total equity and liabilities	<u>15,500</u>	<u>20,300</u>

Additional information

Stock as at 1 October 2021 was Sh. 5,000,000

Required:

For each year, calculate the following:

- i. Gross profit margin (2 Marks)
- ii. Inventory turnover (2 Marks)
- iii. Return on equity (2 Marks)
- iv. Acid test ratio (2 Marks)
- v. Current ratio (2 Marks)

(c) Comment on the liquidity position of the company giving possible reasons for the change. (2 Marks)

16. Financial planning is one of the most crucial steps for any organization, regardless of whether they make any profit or not. While many organization understand the importance of financial planning, it is still one of the steps that are postponed or skipped.

- (a) Describe **Six** steps in organisational financial planning. (12 Marks)
- (b) Elaborate **Four** factors that firms should consider when developing organization financial plans. (8 Marks)