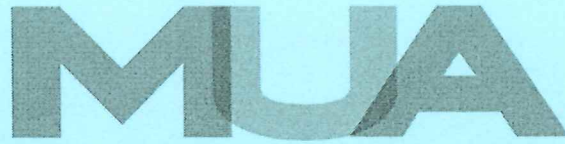


The
Management
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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF EDUCATION ARTS

ACT 201: FINANCIAL MANAGEMENT

DATE: 9TH DECEMBER 2024

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.

Required:

- a) Examine six steps ABC manufacturing can take using cash budgets to navigate the financial crisis they faced (9 marks)
- b) Compare and contrast cash budgeting with other financial forecasting methods, such as sales forecasts or profit and loss forecasts (5 marks)
- c) Assess three ways that the insights gained from a cash budget lead to operational or strategic changes in a company (3 marks)
- d) With reference to the financial data provided in the case study, prepare a cash budget for the months of May, June and July 2024 (8 marks)

QUESTION TWO

- a) Explain the three key non-financial factors that influence the value of a business (6 marks)
- b) A firm receives daily remittances of Kshs. 1.5 million, and could earn 9% on any funds freed up through faster collections. The firm wants to install a lockbox system that can save 2 days in the collection process, and the firm's bankers will charge Kshs. 200,000 per year to operate the lockbox system.

Required:

Determine whether it is worth it for the firm to establish the lock box system. (9 marks)

QUESTION THREE

- a) Explain three conditions under which loans are an ideal source of finance (6 marks)
- b) You are provided with the following Financial Statements

Balance Sheet 2023

Liabilities	Ksh.	Assets	Ksh.
Equity share capital	100,000	Land and Buildings	50,000
General reserves	12,500	Plant & machinery	57,500
Creditors	10,000	Stock	10,000
Bills payable	5,000	Debtors	7,500
Provident fund	12,500	Cash & bank	15,000
	<u>140,000</u>		<u>140,000</u>

Required:

For each of the projects, determine the Average Rate of Return and advise management on the best project to invest in if the company's policy is to accept projects with an average return greater than 20% (5 marks)

QUESTION FIVE

- a) Dexter Ltd is considering relaxing its credit standards. The firm's current credit terms is net 30 but the average debtors collection period is 45 days. Current annual credit sales amounts to Sh. 6,000, 000. The firm wants to extend credit period net 60. Sales are expected to increase by 20%. Bad debts will increase from 2% to 2.5% of annual credit sales. Credit analysis and debt collection costs will increase by Sh. 4,000 p. a. The return on investment in debtors is 12% for Sh. 100 of sales, Sh. 75 is variable costs. Assume 360 days p. a.

Required

With the aid of calculations, advise whether the firm should change or retain its credit policy (10 marks)

- b) Examine five goals of a firm (5 marks)

QUESTION SIX

- a) Discuss five factors to consider when selecting sources of funds (10 marks)
- b) Suppose you are offered an opportunity to invest Sh. 100,000 today with an assurance of receiving exactly Sh. 300,000 in eight years. Calculate the implicit interest rate. (5 marks)