



CERTIFIED PROCUREMENT AND SUPPLY PROFESSIONAL (CPSP)

PART I

FINANCE FOR PROCUREMENT



WEDNESDAY: 29 November 2017.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

SECTION A

QUESTION ONE

- (a) State FOUR principles of corporate governance. (4 marks)
 - (b) Explain THREE unique features of microfinance institutions. (6 marks)
 - (c) Suggest FOUR reasons why a firm may opt to supply goods on credit terms. (4 marks)
 - (d) Explain the importance of financial statements analysis to the following users:
 - (i) Suppliers. (2 marks)
 - (ii) Customers. (2 marks)
 - (iii) Lenders. (2 marks)
- (Total: 20 marks)

SECTION B

QUESTION TWO

- (a) Debt financing has been a major source of long-term finance for business.
Discuss THREE drawbacks of debt financing. (6 marks)
- (b) ABC Ltd. intends to invest in a project with the following cash flows:

Year	Cash flow (Sh.)
0	(600,000)
1	200,000
2	180,000
3	160,000
4	140,000
5	100,000

The company's required rate of return is 12% per annum.

Required:

- (i) Pay-back period. (3 marks)
 - (ii) Net-present value. (3 marks)
 - (iii) Profitability index. (2 marks)
- (c) Kabambe Industries wishes to list on a securities exchange. They have stated that they pay a dividend of Sh.3.50 per share although they forecast the dividend to grow at a rate of 5.4%. The market's expected rate of return is 11.9% while listed companies comparable to Kabambe Industries have a share price of Sh.75.

Required:

Calculate the cost of equity for Kabambe Industries using the dividend growth model. (6 marks)

(Total: 20 marks)

QUESTION THREE

Philip imports fish from China and distributes to other parts of the country. A market survey provides an estimated annual demand for the next two years as 100,000 tonnes of fish. The cost of placing an order is Sh.50,000, storage is 10% of the price of each ton and the price per ton is Sh.24,000.

The exchange rate between the Kenyan shilling and the Chinese Yuan is 15.05.

Required:

- (a) Examine FIVE factors that determine the exchange rate of the Kenyan shilling and the Chinese Yuan. (10 marks)
 - (b) Calculate the Economic Order Quantity (EOQ) using the details given above. (5 marks)
 - (c) Highlight FIVE financial challenges that Philip is likely to face when transacting business with Chinese suppliers. (5 marks)
- (Total: 20 marks)**

SECTION C

QUESTION FOUR

- (a) A company produces two products namely; A and B. Two types of material M and N are used in manufacturing of these products.

The following information is provided by the company for the year 2017:

Budgeted sales		
Product	Quantity (units)	Prices (Sh.)
A	9,000	120
B	10,000	150
Material used (per unit)		
	M	N
A	6	12
B	10	8
Unit cost (Sh.)	5	3

The opening and closing stock were as follows:

Finished product	Opening	Closing
A	5,000	2,500
B	4,000	6,000
Material		
M	6,500	7,000
N	4,500	3,500

Required:

Prepare the following budgets:

- (i) Sales budget. (3 marks)
 - (ii) Production budget. (3 marks)
 - (iii) Material usage in quantity budget. (4 marks)
 - (iv) Materials purchase in quantity and value budget. (4 marks)
- (b) Explain FOUR factors influencing the capital expenditure decision. (8 marks)

(c) The following financial statements were extracted from the books of ABC Company Ltd. for the year 2017:

Income statement

	Sh.	Sh.
Sales		550,000
Less: Cost of sales:		
Opening stock	170,000	
Purchases	<u>465,000</u>	
	635,000	
Less: Closing stock	<u>(165,000)</u>	<u>470,000</u>
Gross profit		80,000
Less: Expenses		<u>(90,000)</u>
Net loss		<u>(10,000)</u>

Statement of financial position

Fixed assets	Cost	Depreciation	Net book value
Premises	610,000	300,000	310,000
Fixtures	85,000	40,000	45,000
Motor vehicles	<u>105,000</u>	35,000	<u>70,000</u>
			425,000
Current assets			
Inventories		152,000	
Accounts receivable		<u>183,000</u>	<u>335,000</u>
Total assets			<u>760,000</u>
Financed by:			
Capital		120,000	
Retained profits		<u>160,000</u>	280,000
Non-current liabilities:			
Long-term loan			160,000
Current liabilities:			
Creditors		146,000	
Bank overdraft		<u>174,000</u>	<u>320,000</u>
Total equity and liabilities			<u>760,000</u>

Required:

Calculate:

- (i) Debtors collection period. (2 marks)
- (ii) Credit payment period. (2 marks)
- (iii) Gross profit margin. (2 marks)
- (iv) Return on equity. (2 marks)

- (d) Discuss FIVE reasons why plastic money usage has increased in the developed countries. (10 marks)
- (Total: 40 marks)**

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