

CHUKA



UNIVERSITY

## UNIVERSITY EXAMINATIONS

**EXAMINATION FOR THE AWARD OF DEGREE OF MASTER SCIENCE IN  
FINANCE**

**MSCF 821: WORKING CAPITAL MANAGEMENT****STREAMS:****TIME: 3 HOURS****DAY/DATE : THURSDAY 15/07/2021****8.30 A.M – 11.30 A.M****INSTRUCTION**

**Answer question ONE and any other three questions  
Do not write anything in the question paper**

1. (a) Corporate finance manager are required to balance between excessive and in adequate working capital for effective management of organization operations. Discuss.

[12

marks]

- (b) The following information was provided by Matunda manufacturing company ltd for the month of 30<sup>th</sup> June 2020.

(i)

Month	Sales	Material	Wages	Overheads
	Ksh	Ksh	Ksh	Ksh
February	14,000	9,600	3,000	1,700
March	15,000	9,000	3,000	1,900
April	16,000	9,200	3,200	2,000
May	17,000	10,000	3,600	2,200

June	18,000	10,400	4,000	2,300
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(ii) Credit terms are: sales and debtors -10% sales are on cash, 50% credits are collected next month and the balance in the following month.

(iii) Creditors materials are paid after 2 months, wages  $\frac{1}{4}$  month and overheads  $\frac{1}{2}$  month.

(iv) Cash balance on 1<sup>st</sup> April 2020 is projected to be ksh 6,000.

(v) Other relevant information are:

- Plant and machinery will be installed in February 2020 at a cost of ksh 96,000. The monthly installment of ksh 2,000 is payable from April 2020 onwards.

- Dividends of 5% to shareholders is to be paid in 1<sup>st</sup> June 2020. The share capital of the company is ksh 40,000 shares of ksh 100 each.

- Advance cash to be received in June for sale of old vehicle ksh 9000.

- Investment dividends is to be received in June ksh 1000

- Advance income tax is to be paid in June ksh 2000

Required a projected cash budget for the three months ending 30<sup>th</sup> June 2020.

[16

marks]

(c) Describe the main framework of the working capital management, and on each element of framework highlight how it is important to an institution in managing liquidity.

[12 marks]

2. (a) What is accounts receivable financing? Describe the benefits of accounts receivable financing.

[6 marks]

(b) Describe the major costs associated with accounts receivables and suggest ways and means of reducing such cost. [5 marks]

(c) Makupa ltd has a credit period of 25 days. It is estimated that if the credit period is extended to 50 days the sales volume will increase by 20%. The following are further information from the company.

- current sales ksh 18,000,000
- Bad debts losses will increase on increased sales by 10%
- Production and selling cost on the increased sales 60%
- Tax liability on increased sales 8%
- Estimated sales that will avail discount is ksh 6,000,000
- Cash discount of sales that avail discount on payment within 25 days is 5%
- Economy of scale will be achieved at 1,200,000
- Fixed cost efficiency ksh 800,000

Required to evaluate this credit policy and recommend if it is viable for the company.

[9

marks]

3. (a) Describe the major techniques used to control inventory and how they are applied in managing stocks effectively. [12 marks]

(b) (i) Explain the working of dynamic discounting in working capital management.

[6

marks]

(ii) Highlight why dynamic discounting is important to buyers (debtor) [2 marks]

4 .(a)In current global dynamic environment cash flow forecasting and planning is a very important function in financial management. Managers face a lot of challenges particularly in medium term and long term planning.

(i) Disclose the challenges the finance managers may face in cash flow forecasting for multinational companies. [5 marks]

(ii) Suggest the solutions of handling the above problems/challenges. [4 marks]

(b) Describe how supply chain finance (SCF) work in corporate financing process. [4

marks]

(c) What is receivable financing? Describe different types of receivables financing options open for use in managing the receivables. [7 marks]

5. (a) The following data was provided by Wakulima investment company for the years ended 31<sup>st</sup> December.

	2019	2020
	Ksh 000	Ksh 000
Raw materials stock	80,000	108,000
Work –in- progress	56,000	72,000
Finished goods	64,000	96,000
Annual purchases	384,000	520,000
Cost of sales	560,000	720,000
Sales	640,000	800,000
Debtors	128,000	192,000
Creditors	64,000	78,0000

**Required:**

(i) Operating cycle period of the firm. [7 marks]

(ii) Assume the company has liabilities which are to be serviced on quarterly period in each year comment on the liquidity status of the firm (based on the operating cycle period). [4 marks]

(iii) The management wants to reduce the above operating cycle by 60 days suggest the measures they may take to achieve the target. [4 marks]

- (iv) Explain why its recommended that an organization is required to have a positive working capital. [5 marks]
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