KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

FIRST SEMESTER EXAMINATION FOR THE DEGREE OF MASTER OF PUBLC HEALTH

PHM 803: HEALTHCARE FINANCIAL MANAGEMENT II

DATE: Monday, 5th February 2018 **TIME:** 2.00 p.m. - 5.00 p.m.

INSTRUCTIONS: Answer Question 1 **and any other three (3) from questions 2 - 5.**

QUESTION ONE

Agency problems can be resolved by proper corporate governance. Corporate governance lays emphasis on shareholders rights and enhancement of shareholder value. In many countries including Kenya, the concept of corporate governance has gained increasing prominence in recent times as evidenced by the issue of corporate governance guidelines by the Capital Markets Authority (CMA).

Required:

a) Explain the reasons motivating the increasing interest in corporate governance. (5 marks)
b) Identify the benefits of good corporate governance to shareholders. (4 marks)
c) Write short notes on any five corporate governance guidelines (5 marks)

QUESTION TWO

a) Why is an external audit necessary for companies registered under the Companies Act? (3marks)
b) Under what circumstances is one ineligible for appointment as an auditor of a company? (4mrks)
c) Explain the procedure a company has to follow when changing its auditors. In your discussion explain 'dismissal' and 'appointment' of auditors by a company? (6 marks)
d) List the rights and duties of an independent auditor. (5 marks)

QUESTION THREE

a) Define a cash budget and state the objectives of preparing a cash budget (5marks)

b) Gome Drug Products Limited ventured into a business of purchasing and selling of drugs. The projected sales for the first four months and thereafter are as follows:

Month	Projected Sales(in units)
July	2,400
August	3,600
September	4,800
October and monthly thereafter	9,600

Additional Information:

- ✓ The selling price per unit would be Kshs.700
- ✓ All sales would be on credit terms, requiring settlement two months after the date of sales. However, if a settlement was made by a customer within the month of sale, a discount of 2.5% was given.
- ✓ Of the total sales, 60% are expected to be settled two months after the date of sales
- ✓ The Purchasing cost of each unit is Sh.490. The firm intends to make purchases at the end of each month in order to maintain sufficient inventory for sale in the following month.
- ✓ Payment for purchases will be made one month in arrears.
- ✓ Non-Current Assets are expected to cost sh.17, 500,000 payable quarterly in advance commencing 1st July 2015.
- ✓ Annual rent is expected to be sh.1, 680,000 and would be payable quarterly in advance commencing 1st July 2015.
- ✓ Monthly wages are expected to be sh.280, 000 payable in the month they are incurred.
- ✓ Overhead expenses are expected to be sh.420, 000. Half of which will be payable in the month they are incurred and the balance one month later (overheads includes depreciation of sh.80, 000 monthly).
- ✓ The opening cash balance at the beginning of July 2015 is expected to be sh.1,425,000.

Required:

Prepare a cash budget for the months of July 2015-November 2015 (15marks)

QUESTION FOUR

a) What are the main objectives of an internal control system? (4 marks)
b) What are the disadvantages of rigidly adhering to a system of internal control? (4 marks)

QUESTION FIVE

(a) In making investment decisions, cashflowss are considered to be more important than accounting profits. Briefly explain why this is the case. (4 mark)

(b) The management of Biashara Ltd. is in the process of evaluating two alternative machine models, Alpha and Beta for possible purchase in order to increase the company's production level.

The following additional information is available:

1. Alpha costs Shs. 3,800,000 and will have a useful life of four years.
2. Beta costs Shs. 8,000,000 and will have a useful life of six years.
3. Both machines have no salvage value after their useful lives.
4. An investment in working capital amounting to Shs. 825,000 will have to be made at the beginning of the first year of the machine's life regardless of the model purchased.
5. The estimated pre-tax cash inflows for each of the machines are shown below:

Year	**Machine**	
	Alpha	**Beta**
	Shs.	**Shs.**
1.	2,590,000	4,300,000
2.	2,880,000	3,290,000
3.	3,050,000	3,200,000
4.	2,950,000	3,700,000
5.	-	4,850,000
6.	-	4,420,000

6. The cost of capital to the company is 12%

Required:

(i) Calculate the undiscounted pay back period for each machine model. (4 marks)

(ii) Calculate the net present value (NPV) for each machine model. (6 marks)

(iii) Using the net present values computed in (ii) above, advise the management on which model to purchase. (2marks)