

**KARATINA UNIVERSITY**

**SCHOOL    OF BUSINESS**

**SUPPLEMENTARY EXAMINATIONS**

**2021/2022 ACADEMIC YEAR**

**SECOND** YEAR **SECOND** SEMESTER EXAMINATION

SCHOOL OF BUSINESS

**BACHELOR OF HEALTH    SYSTEMS    MANAGEMENT**

**COURSE CODE: BHS 220**

**COURSE TITLE: HEALTH CARE FINANCIAL MANAGEMENT**

**DATE: 16 SEPTEMBER 2022 TIME: 0900-1200 HRS**

QUESTION ONE IS COMPULSORY.

CHOOSE 3 OTHER QUESTIONS

**QUESTION ONE**

a) ‘Finance scholars and practitioners have criticized profit maximization as an objective of the firm on many grounds’. Discuss FOUR criticisms of the profit maximization as an objective of financial management (4 mks)

b) Discuss wealth maximization as an alternative objective of the firm, highlighting TWO of its strengths and ONE weakness. (3 mks).

c) Discuss ONE major distinction between finance and accounting. (2 marks).

d) Citing examples, distinguish between the following terms;

i). Fixed costs and variable costs. (3 marks).

ii) Budgeting and Capital Budgeting. (3 marks).

e) Describe THREE ways that auditors gather audit evidence, with an appropriate example in each case. (6 marks)

f)    Describe TWO threats to auditor independence. (4 marks)

**QUESTION TWO**

ABC LTD is a Small business that produces a disinfectant for the local market in Karatina Town. The selling price per unit of the drug is Ksh 10.00. The variable costs of producing the drug is Ksh. 6.00. ABC LTD has fixed costs of approximately Ksh. 50,000.00;

a) Define the following terms;

i) Cost-Volume-Profit (CVP) Analysis. (1 mark).

ii) Margin of Safety (1 Mark)

b) Compute the contribution margin per unit of a match box (2 marks).

c) Compute the contribution margin ratio (2 marks).

d) Compute the Break-Even Point in units of match boxes (2 marks).

e) Compute the Break-Even Point in Kenya Shillings worth of sales (2 marks).

f) Compute the units of match boxes that ABC LTD requires to produce and sell to guarantee a profit of Ksh. 100,000.00 (2 marks).

g) Compute the volume of sales in Kenya Shillings that ABC LTD requires to guarantee a profit of Ksh. 80,000.00 (3 marks).

**QUESTION THREE**

a) Define the following terms;

i) Auditing. (1 mark)

ii) Internal Controls. (1 mark)

iii) Operational audit. (1 mark)

b) As a manager in a local hospital, describe FOUR internal controls activities that you would implement to safeguard the assets of your firm. (4 marks)

c) “Due to the separation of ownership from management in modern corporations, the managers may not always act in the best interest of the owners.” In this regard discuss;

i) FOUR steps that owners could take to minimize the resultant agency conflicts (4 marks).

ii) THREE costs incurred in the quest to resolve agency conflicts, indicating which party bears each of the cost. (4 marks)

**QUESTION FOUR**

a) Describe the FOUR components of a financial report. (4 marks)

b) You are provided with the following comparative income statements for XYZ LTD, a private pharmaceutical company in Karatina town. Note that all figures are in tens of thousands (10,000).

**XYZ LTD**

**Income Statement for the year ending December 31**

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2019 | 2020 | 2021 |
| Net Sales | 200 | 210 | 240 |
| Cost of Sales | (160) | (162) | (158) |
| Gross Profit | 40 | 40 | 82 |
| Selling, General and Administrative Expenses | (10) | (12) | (15) |
| Operating Income | 30 | 28 | 67 |
| Interest Expense | (5) | (4) | (3) |
| Loss on Sale of Equipment | (1) | 0 | 0 |
| Income Before Tax | 24 | 24 | 64 |
| Tax Expense | (8) | (6) | (5) |
| Net Income | 16 | 18 | 59 |

i) Conduct a vertical analysis for each year (3 marks).

ii) Conduct a horizontal analysis using 2019 as the base year and comment on the trend in revenues. (4 marks).

iii) Compute the following ratios for each year from the dataset and interpret the results.

- Gross Profit Margin. (2 marks)

- Times Interest Earned. (2 marks)

**QUESTION FIVE**

a)    Describe the budgeting process, citing a relevant example in each case.    (3 Marks)

b) You are provided with the information regarding Mwakio Corporation, a medical research agency. Prepare a cash budget from January to April 2023 showing monthly deficits/surpluses. (12 marks)

i) Cash sales estimated at Ksh. 300,000.00 in January. Cash sales are estimated to grow at 10% per month.

ii) Credit sales of Ksh. 50,000 per month. Debtors, on average, pay 10% in the month after the purchase and settle the balance in the second month after the purchase.

iii) Salaries and wages at an estimated 120,000.00 per month.

iv) rental charges of Ksh. 20,000.00 per month.

v) Interest expenses estimated at Ksh. 10,000.00 per month.

**QUESTION SIX**

a) Describe TWO strengths and ONE weakness of each of the following capital budgeting techniques.

i) Payback Period. (3 marks)

ii) Discounted payback period. (3 marks)

iii) Net Present Value (NPV). (3 marks)

b) You are a manager at a local hospital. You are contemplating constructing a new theater to expand the capacity of the hospital. The cost of the project is estimated at Ksh. 4,000,000.00. Once complete, the project will bring in an estimated additional 600,000.00 in net revenue per year. Ignoring taxes and depreciation costs, calculate.

i) The payback period for the project. (1 mark)

ii) The discounted payback period for the project at 12% rate of return. (2 mks)

iii) The NPV at 12% rate of return. (3 mks)