JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
(KLC)

MAY-AUGUST 2014 EXAMINATIONS

BACHELOR OF BUSIBESS ADMINSTRATION WITH INFORMATION TECHNOLOGY
(FINANCE OPTION)

COURSE NAME: FINANCIAL PLANNING, BUDGETING AND CONTROL
COURSE CODE: ABA 319

INSTRUCTIONS

Answer question one **(compulsory)** and any other two questions
Question one carries **30 marks** and all other questions carry **20 marks** each

QUESTION ONE (COMPULSORY)

a) "Budgeting is a step by step process that involves planning, control and financial forecasting" In light of this statement, name and briefly explain any FOUR key factors that may affect the success of financial planning in any business. **8 Mks**

b) Vako Ltd Manufactures a product branded "omega". The production of omega requires a raw material which costs Sh. 136 per kg and direct labour which costs Sh. 600 per hour.

Each unit of omega requires 2 kg of the raw material, 15 minutes of direct labour and variable overheads of Sh. 115. The product retails at Sh. 1,360 per unit.

Additional information:

i. The company is in the process of preparing budgets for the financial year ending 30 June 2013.

ii. The fixed production overheads for the year

	Sh.
Depreciation of plant and machinery	1,500,000
Insurance	600,000
Supervision	2,100,000

iii. Other fixed overheads (non-production) are estimated as follows Sh.

Depreciation of office equipment	900,000
Advertising	600,000
Salaries	6,480,000

iv Allocated selling and administration expenses for the year ending 30 June 2013 are estimated at Sh. 130 per unit of omega The budgeted opening and closing inventories of raw material and finished goods (omega) for the year ending 30 June 2013 are shown below:

	1 July 2012,	**30 June 2013**
Raw material (kgs)	15,000	3,000
Finished goods (units)	1,500	7,500

v. The company expects to sell 300,000 units of omega during the year ending 30 June 2013:

Required:

Prepare the following budgets for the year ending 30 June 2013:

i. Sales budget (in shillings)**4 Mks**

ii. Production budget (in units)**4 Mks**

iii. Direct materials budget (in shillings **4 Mks**

iv. Direct labour budget (in shillings) **4 Mks**

c)Discuss any Threedisadvantages that may be associated with practicing a system of traditional budgetary controlin the current business environment **6 Mks**

TOTAL: 30 MARKS

QUESTION TWO

a) Discuss any four benefits that can be derived from a system of budgetary financial control within companies **8 Mks**

b) The following information was extracted from the books of Kamau ltd for the preparation of budgets.

i. Opening balance for cash is; sh 1,200

ii

Month 2012/2013	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan 2013	Feb 2013
Sales: **sh 20/unit**	260	200	320	290	400	300	350	400	390	400	260	250

Cash is recorded for sales after 3 months following the sale

iii. Production in units

Month	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb
Production (**Units)**	240	270	300	320	350	370	380	340	310	260	250	-

iv Raw materials cost sh 5/unit and of this, 80% is paid in the month of production and 20% the next month after production

v. Direct labour cost sh 8/unit and payable in the month of production

vi. Variable cost expenses are sh 2/unit and of this, 50% is paid in the month in the same month of production and 50% in the following month after production

vii. Fixed expenses are sh 400 per month payable each month of production

viii. Machinery costing sh 2000 to be to be paid for in the month of October

ix. The company will receive a legacy of sh 2,500in December 2012

x. Drawing amount tosh 300 per month

xi. The company expects to hold a minimum cash balance of sh 1000 throughout the budgeting period

Required:

Prepare a cash budget for Kamau ltd showing the balances at the end of each month for its 6 months ended at 31st December 2012**12 Mks**

TOTAL: 20 MARKS

QUESTION THREE

a) Differentiate between the following terms as used in financial planning, budgeting and control:
   i) CostCentre and Revenue centers. **6 Mks**
   ii) Profit center and investment centers**.** **6 Mks**
   iii) Feed forward control and zero based budgeting **6 Mks**

b) Discuss any two major reasons why a company may prepare a Research and Development budget. **2 Mks**

TOTAL: 20 MARKS

QUESTION FOUR

a) Explain**six** reasons why it is important for finance managersto prepareshort-Term Cash plans for their organizations. **12 Mks**

b) The Country Director, World-vision Kenya, was noted having his opening remarks in a planning, programming, budgeting conference as follows:-
   "It is only possible to achieve the overall objectives of an organization if there is strict adherence to the Planning, Programming and Budget guidelines"
   Discuss your comments on his remarks **8 Mks**

TOTAL: 20 MARKS

QUESTION FIVE

Gleason Company, a manufacturer of children's toys and furniture, is beginning budget preparation for next year. Jack T, a recent addition to the accounting staff at Gleason, is questioning Robbins and Crowe, sales and production managers, to learn about Gleason's budget process.

Crowe says that he incorporates Robbins's sales projections when estimating closing inventories, but that the resulting numbers aren't completely reliable because Robbins makes some "adjustments" to her projections. Robbins admits that she does, indeed, lower initial sales projections by 5% to 10% to give her department some breathing room. Crowe admits that his department makes adjustments not unlike Robbins's; specifically, production adds about 10% to its estimates. Robbins also says he is considering introducing zero-based budgeting in order to bring costs into line with revenue expectations for the next financial period.

Required:

a) Discuss any **four**behavioural problems that may be expected fromGleason from their system budgetary control. **8Mks**
b) Discuss any **three**adverse effects that may result from introducing budgetary slack for Robbins and Crowe **6 Mks**
c) Explain how zero-based budgeting could be advantageous to Robbins and Crowe overall budget process. **6 Mks**

TOTAL: 20 MARKS