JARAMOGI UNIVERSITY

BUSIA CAMPUS

ABA 319: FINANCIAL PLANNING

BUDGETING AND CONTROL

Question 1 is Compulsory and Answer any other 2 Questions. Time: 3 Hrs.

QUESTION ONE

A good budgeting system must provide for both planning and control. A good financial planning without control is time wasting.

i. What is the difference between planning and control (3mks).

ii. Explain the advantages and disadvantages of budgeting (15mks).

iii. Briefly explain the meaning of master budget and zero based budget (4 mks)

iv. Differentiate between budgeted costs, marginal cost and standard costs (8 mks)

QUESTION TWO

(a) What is capital budgeting? (2mks)

(b) Why is capital budgeting significant for a firm? (5mks)

(c) Consider the following three investments:

Cash flows in (Kshs.)

Projects	I_O (Year 0)-Initial Cost	I_1 (Year1)	I_2 (Year 2)
X 1	• 2,500	0	+ 3,305
X 2	• 2,500	+ 1,540	+ 1,540
X 3	• 2,500	+ 2,875	0

The discount rate is 10%. Compute the net present value and the payback period for each project. Comment on management decision on the choice of these project(s) (13mks)

QUESTION THREE

- (a) ‘‘Capital expenditure budgeting is not merely the evaluation of projects; it involves many other important steps”? Explain (8mks).

(b) State the merits of net present value method (3mks)

(c) List various type of capital budgeting techniques (2mks).

(d) Differentiate between:

i) Committed fixed costs and Discretionary costs (4mks)

ii) Controllable and non-controllable costs (3mks).

QUESTION FOUR

- (a) What is breakeven point? Illustrate using an operating break even chart (5mks).

(b) Prepare a flexible budget for overheads on the basis of data given below.

Ascertain the overhead rates at 50, 60 and 70 per cent capacity?

	At 50% capacity Kshs.	At 60% capacity Kshs.	At 70% capacity Kshs.
Variable overheads			
Indirect material	?	6,000	?
Indirect labour	?	18,000	?
Semi- variable overheads			
Electricity (40% fixed, 60% variable)	?	30,000	?
Repairs & maintenance (80% fixed & 20% variable)	?	3,000	?
Fixed overheads			
Depreciation	?	16,500	?
Insurance	?	4,500	
Salaries	?	15,000	
Total overheads	?	93,000	?

Note: The estimated Direct Labor Hours at 60% capacity is Kshs.186, 000. (9mks)

(c) A project X cost Kshs. 1,600 and is expected to generate cash flows of Kshs. 800, Kshs. 700, and Kshs. 600 at end of each year for next 3 years.

Calculate the Marginal efficiency of capital or yield of project X. (6mks)

QUESTION FIVE

X Co. has made plans for the next year. It is estimated that the Co. will employ total assets of Kshs.800, 000; 50% of the assets being financed by borrowed capital at an interest costs of 8% p.a. The direct costs for the year are estimated at Kshs. 480,000. The goods will be sold to customers at 150% of the direct costs. Tax Rate is assumed to be 50%.

Required to calculate;

ii) Net profit margin (5mks)

iii) Return on assets. (5mks)

iv) Assets turnover. (5mks)

v) Return on owners' equity (5mks)