

**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
(KISUMU LEARNING CENTRE)**

**BACHELOR OF BUSINESS ADMINISTRATION WITH INFORMATION TECHNOLOGY
(FINANCE OPTION)**

(EVENING STUDENTS)

**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

a) X Limited manufactures two products A and B. For the financial year ended 30 June 2012, the following information was assembled for preparation of the budget: Standard data per unit

Direct Materials	Standard Price	Product A	Product B
	per Kg;	Kg	Kg
	Sh.		
M1	10	10	4
M2	20	4	6
Direct Labour	Standard rate	Product A	Product B
	per hour	Hours	Hours
L1	30	8	10
L2	20	12	5

The following additional information was available:

- i) Fixed Production overhead costs were recovered on a direct labour basis.
- ii) Administration, selling and distribution costs were absorbed at the rate of 20% of production cost.
- iii) Profit was estimated at the rate of 25% of cost of making and selling the products.

	Product A	Product B
	Sh. „000“	Sh. „000“
Expected sales for the year	13,494	18,816

v) Finished goods stock valued at standard production cost was as follows:

	Product A	Product B
	Sh. „000“	Sh. „000“
1 July 2011	1,730	1,176
30 June 2012	1,038	1,568

vi) Direct materials stock valued at standard prices was as follows:

	Material M1	Material M2
	Sh. „000“	Sh. „000“
1 July 2011	640	600
30 June 2012	360	800

vii) For the year ended 30 June 2012, „fixed overheads had been budgeted at Sh. 5,760,000 and direct labour hours budgeted at 3,600 hours.

viii) It is management’s expectations that there will be no opening or closing work-in-progress.

Required:

- i) Production budget.
- ii) Direct Material cost budget.
- iii) Purchases budget.
- iv) Direct labour cost budget.

(16mks)

(b) Briefly explain the factors that you would keep in mind while drafting a good financial plan for an industrial concern (8mks)

(c) Write brief notes on the following

i) Traditional budgeting

ii) Activity based budgeting

iii) Free forward control (6mks)

TOTAL 30 MKS

Question two

Royal complex is a medium-sized company specializing in the leisure industry in Kisumu. The complex comprises of a swimming pool, a diving pool, a sauna, a sports hall and a conference hall. The conference also has a bar and a restaurant.

Assuming that you are the newly appointed director of the business, you are surprised that there is no budgeting system at the complex.

Required

- a. Explain any reasons to the departmental heads why you think a formal system of budgeting and control should be introduced in this kind of business (3 mks)
- b. Identify and explain functional budgets you think will be required in royal complex (4mks)
- c. Identify three behavioral problems that may be associated with budgetary control (3 mks)
- d. Name and briefly explain five main key factors that may affect the budgeting process in the business. (10mks)

TOTAL 20MKS

Question three

The draft balance sheet for ABC ltd as at 31-12-2010 and 31-12-2011 was as follows

	2010		2011	
	Shs '000'	Shs '000'	Shs '000'	shs '000'
Non-current assets				
Land and buildings		2400		3000
Aggregate depreciation in buildings		(450)		(525)
Plant and equipment at cost		3000		5100
Aggregate depreciation on plant		<u>(1350)</u>		<u>(1875)</u>
		3600		5700
Current assets				
Inventory	900		1125	
Debtors	450		675	
Cash	<u>300</u>		<u>-</u>	
	1650		1800	
Current liabilities				
Creditors	300		450	
Taxation	375		450	
Dividends	225		225	
Overdrafts	<u>-</u>		<u>75</u>	
Net current assets	900	750	1200	600
		4350		6300
Capital and reserves				
Ordinary capital		3000		4500
Share premium		300		600
Retained income		750		1200
10% debentures repayable 31/12/2011		<u>300</u>		<u>-</u>
		4350		6300

Extracts from income statements for the year 2011 are as follows

	Shs '000'	shs '000'
Income before taxation		1350
Taxation for the year		<u>(525)</u>
		825
Dividends for the year		
Interim dividends paid	150	
Final dividends proposed	<u>225</u>	<u>375</u>
Retained income for the year		450
Retained income at 1/1/2011		<u>750</u>
Retained income at 31/12/2011		<u>1200</u>

Additional information

Depreciation charge for the year amounted to sh 900,000

An item of plant was disposed off during the year for shs 250,000. It had cost shs 475,000 when new and had a depreciated value of shs 175,000

Required

- Prepare a statement of cash flow for the year ended 31st December 2011 for ABC ltd and explain briefly the results for your answer (12 mks)
- Discuss the indicators of possible business failures in an organization (8mks)

TOTAL 20MKS

Question four

a) 'Forecasting in the business process of investing is especially important because failure trends can be devastating' Most business firms spend large amount of time, effort and money to obtain accurate forecasts.

As a finance student, how do you think forecasting in advance of needs helps financial managers perform their duties more effectively? (12 mks)

- Discuss any four criticisms of traditional budgetary control process (8mks)

TOTAL 20MKS

Question five

a) Write notes on the following terms as used in financial planning, budgeting and control

i) Budgeting factors

ii) Trend analysis

iii) Common size analysis

iv) Margin of safety (12mks)

b) Explain how budgeting and variance analysis can be used in implementing the principle of financial control in organizational management (8 mks)

TOTAL 20MKS