



**MASENO UNIVERSITY**  
**UNIVERSITY EXAMINATIONS 2016/2017**

**THIRD YEAR SECOND SEMESTER EXAMINATION  
FOR THE DEGREE OF BACHELOR OF BUSINESS  
ADMINISTRATION WITH INFORMATION  
TECHNOLOGY**

**MAIN CAMPUS**

**ABA 319: FINANCIAL PLANNING, BUDGETING AND CONTROL**

Date: 6<sup>th</sup> June, 2017

Time: 12.00 - 3.00pm

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**INSTRUCTIONS:**

- Answer ONE and any other THREE.
- Question one carries 25 marks the rest carry 15 marks each
- Do not answer more than four questions



Question one (compulsory)

- a) (i) Explain the steps involved in a firm's financial planning process (10 marks)
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- (ii) Examine five benefits of financial planning for a corporate firm (5marks)

- b) The following information relates to Lexide Enterprises for the year 2014:

Month	August	September	October	November	December
Sales (Ksh.)	100 000	200 000			
Sales forecast (Ksh.)			400 000	300 000	200 000

- 1 Purchases: The firm's purchases represent 70% of sales of which 10% is paid in cash, 70% is paid in the month immediately following the month of purchase, and the remaining 20% is paid 2 months following the month of purchase.
- 2 Wages and Salaries: Fixed salary cost for the year is Ksh. 96 000. In addition, wages are estimated at 10% of monthly sales.
- 3 Tax payments: Taxes of Ksh. 25 000 must be paid in December.
- 4 Fixed Asset Outlays: New machinery costing Ksh. 130.000 will be purchased and paid for in November.
- 5 Repurchase/Retirement of stock: No retirement or repurchase of stock is expected between October and December.

Required: Prepare a Cash Disbursement Schedule for Lexide Enterprises for the months of October, November and December. (10 marks)

Question Two

- a) Explain five main uses of a Cash Budget for a firm (5marks)
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- b) Swansea a large sales outlet receives all its annual cash inflows from sales. Its customers pay for half of their purchases promptly in cash with the remaining half collected evenly in the following two months. Its actual sales and expected sales information as at the end of March, 2017 is provided in the table below:

Month	Sales (Ksh.)	Sales Forecast (Ksh.)
February	650 000	
March	600 000	
April		700 000
May		1 000 000
June		1 000 000

Required: Determine the firm's projected cash receipts for the months of April, May and June, 2017. (10mks)

### Question Three

The following information was provided by the management of Victoria Hotel for the year 2016:

- Sales made were Ksh.500, 000 in March and Ksh.600, 000 in April.
- Forecast sales for May, June and July were estimated at Ksh. 700,000, Ksh.800, 000 and Ksh.1000, 000, respectively.
- The firm had a cash balance of Ksh.50, 000 on May 1 and wished to maintain a minimum cash balance of Ksh.50, 000.
- The firm made 20% of sales for cash, 60% were collected in the next month, and the remaining 20% were collected in the second month following sale.
- The firm had invested in other subsidiaries from where it received Ksh.20, 000 per month.
- The firm's actual or expected purchases, all made for cash, were Ksh.500, 000, Ksh.700, 000 and Ksh.800, 000 for the months of May through July, respectively.
- Rent was Ksh.30, 000 per month.
- Wages and salaries were 10% of the previous month's sales.
- Cash dividends of Ksh.30, 000 was to be paid in June
- Payment of principal and interest of Ksh.40, 000 was due in June.
- A cash purchase of equipment costing Ksh.60, 000 was scheduled in July
- Taxes of Ksh.60, 000 were due in June.

Required: Present a Cash Budget for the months of May, June, and July 2016.

(15marks)

Question Four

- a) Explain any three elements on which a firm's financial strategy should be based. (3 marks)

- b) Swag Enterprise sells gold necklaces for ksh 10 000 per unit. All sales are on credit. Swag collects credit sales as follows: 40% in the month of sale, 50% in the month following sale and the last 10% two months after sale. Beginning Accounts Receivable (A/R) is ksh 265 000 (made up of ksh 40 000 from sales made in May and ksh 225 000 from June sales, June credit sales were ksh 375 000). The marketing/sales department of Swag has submitted the following sales forecast for the third quarter:

Month	Budgeted sales in units
July	35 000
August	40 000
September	50 000
Quarter	125 000

Required: prepare a sales budget for the third quarter and a schedule of expected cash collections for the third quarter for Swag. (12mks)

Question Five

- a) Explain objectives of profit planning. (5 marks)
- b) Techno Plus Ltd. expects sales during 2017 to rise from the 2016 level of Ksh.3.5 million to Ksh.3.9 million. Because of a scheduled large loan payment, the interest expense in 2017 is expected to drop to Ksh.325, 000. The firm plans to increase its cash dividend payments during 2017 to Ksh.320, 000. The company's year-end 2016 income statement is as follows:

Techno Plus Ltd.  
Income Statement For the year Ended December 31,2016

	Kshs.
Sales revenue	3,500,000
Less: Cost of goods sold	<u>1,925,000</u>
Gross profits	1,575,000
Less: Operating expenses	<u>420,000</u>
Operating profits	1,155,000
Less: Interest expense	<u>400,000</u>
Net profits before taxes	755,000

Less: Taxes (rate = 40%)	<u>302,000</u>
Net profits after taxes	453,000
Less: Cash dividends	<u>250,000</u>
To retained earnings	<u>203,000</u>

Required:

Use the percent-of-sales method to prepare a 2017 Pro- Forma Income Statement for Techno Plus Ltd. (6 marks)

- c) Explain why the statement may underestimate the company's actual 2017 Pro- Forma Income. (4 marks)

Question Six

- a) The following information relates to Millennium Retail outlet who deals in ladies cosmetics.

Sales Budget

Month	Budgeted sales of Pride body lotion in units
July	35 000 units
August	40 000 units
September	50 000 units
October	30 000 units
November	20 000 units

Ending inventory requirement is 20% of the following month's sales.

Required: Prepare inventory purchase budget for pride body lotion for the months of July, August, September, October and for the quarter. (10 marks)

- b) Explain how participative budgeting would help the management of Millennium Retail outlet achieve budgetary control. (5 marks)