



**MASENO UNIVERSITY**  
**UNIVERSITY EXAMINATIONS 2017/2018**

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

**CITY CAMPUS -EVENING**

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

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Date: 17<sup>th</sup> January, 2018

Time: 5.30 - 7.30pm

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**INSTRUCTIONS:**

- Answer Question ONE and any other THREE
- Show all your workings
- Do not write on the question paper



### QUESTION ONE

- (a) Explain the relevance of profit estimation and forecasting in executing functions of a financial planning, budgeting and control officer. **(7 marks)**
- (b) Failure to link and connect cost, revenue and profit estimates with strategic planning can result in budgets that are 'dead on arrival'. Discuss. **(5 marks)**
- (c) Assume that a Management accountant of KCL Limited that makes and sells product X has made the following estimates:

Selling Price Sh.100 Sales demand			Unit variable cost Condition		
Condition	Units	Prob.	Condition	Cost	Prob.
Worst possible	55000	0.3	Best possible	35	0.30
Most likely	60000	0.6	Most likely	40	0.55
Best possible	75000	0.1	Worst possible	55	0.15

Fixed cost = Kshs.200,000

#### Required:

- i) Compute the expected profit **(5 marks)**
- ii) Compute the probability that the company will fail to break even **(3 marks)**
- (d) Explain the following terms as used in financial planning, budgeting and control:
- (i) Zero based budgets **(1 mark)**
- (ii) Cost centre **(1 mark)**
- (iii) Master Budget **(1 mark)**
- (iv) Responsibility accounting **(1 mark)**
- (v) Budget centre **(1 mark)**

### QUESTION TWO

- a) With reference to an organization you are familiar with, explain the conditions that must be fulfilled for successful implementation of a financial planning system. **(10 marks)**
- b) The Management of NRMU Ltd. is not happy with the company's current budgetary planning and control system and would wish to see it more effective than it is currently. For this purpose you have been brought into the company with the title, "Financial Planning and Budgeting Officer (Special Duties)".

Required: Prepare a plan of action showing how you would go about carrying out your assignment. **(5 marks)**

### QUESTION THREE

- (a) Explain the merits of responsibility accounting in the context of a busy small and medium enterprise. (4 marks)
- (b) The production manager of Kithyoko Limited is concerned about the apparent fluctuation in efficiency and wants to determine how labour costs (in Kshs.) are related to volume. The following data presents results of the 12 most recent weeks.

Week No.	1	2	3	4	5	6	7	8	9	10	11	12
Units Produced	134	144	124	136	130	149	139	121	141	147	134	124
Labour costs	1340	1346	1287	1262	1220	1416	1337	1180	1376	1295	1215	1275

**Required:**

Write a brief cost estimation report stating the cost function model using both the high-low method and ordinary Least Squares method (OLSM). (11 marks)

### QUESTION FOUR

The following information relates to the proposed budget for Kisumu Ltd for the months ending 31 December 2017.

Month	Sales Sh. '000'	Material Purchases Sh. '000'	Wages Sh. '000'	Production Overheads Sh. '000'	Administration Overheads Sh. '000'
July	72,000	25,000	10,000	6,000	55,000
August	97,000	31,000	12,100	6,300	6,700
September	86,000	25,500	10,600	6,000	7,500
October	88,600	30,600	25,000	6,500	8,900
November	102,500	37,000	22,000	8,000	11,000
December	108,700	38,800	23,000	18,200	11,500

**Additional Information:**

1. Depreciation expenses are expected to be 0.5% of sales.
2. Expected cash balance in hand on 1 July 2017 is Shs. 72,500,000
3. 50% of total sales are cash sales
4. Assets are to be acquired in the months of August and October at Shs. 8,000,000 and Shs. 25,000,000 respectively
5. An application has been made to the bank for the grant of a loan of Shs. 30,000,000 and it is hoped that it will be received in the month of November
6. It is anticipated that a dividend of Shs. 35,000,000 will be paid in December
7. Debtors are allowed one month's credit
8. Sales commission at 3% on sales is paid to the salesmen each month

**Required:**

Prepare a cash budget for the six months ending 31 December 2017

(15 marks)

**QUESTION FIVE**

A small manufacturing firm produces one product. The budgeted sales for the month of March 2017 are 10,000 units at a selling price of Sh.2,000 per unit. Other details are as follows:

1. Two components of input are used in production of one unit of output.

Component (input)	Number	Unit cost of each component
		Sh.
X	5	20
W	3	10

2. Stocks at the beginning of the month are budgeted as follows:

- 4,000 units of finished goods at a unit cost of Sh.1,050.

- Component X: 16,000 units at a unit cost of Sh.20.

- Component W: 9,600 units at a unit cost of Sh.10.

3. Production of each unit requires the following labour hours:

Department	Hours per unit	Labour rate per hour
		Sh.
Production	4	100
Finishing	2	140

4. Factory overhead is absorbed into unit cost on the basis of direct labour hours. The budgeted factory overhead for the month is Sh.1,920,000.

5. The administration, selling and distribution overhead for the month is budgeted at Sh.5,500,000.

6. The company plans a reduction of 50% in quantity of finished stock at the end of the month and increase of 25% in the quantity of each input component.

**Required:** For the month on March 2017, prepare:

- (a) Sales budget. (2 marks)
- (b) Production quantity budget. (2 marks)
- (c) Materials usage budget. (2 marks)
- (d) Materials purchase budget. (2 marks)
- (e) Direct labour budget. (2 marks)
- (f) The budgeted profit and loss account. (5 marks)