



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY  
UNIVERSITY EXAMINATIONS

BACHELOR BUSINESS ADMINISTRATION (ACCOUNTING OPTION)

UNIT CODE: ABA 319. UNIT NAME: FINANCIAL PLANNING, BUDGETING AND CONTROL.

INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER TWO. TIME: 2 HOURS.

**QUESTION ONE.**

- (a) Outline the essentials of financial planning. (6 marks).
- (b) Describe the budgeting process. (6 marks).
- (c) Explain the firm objectives that inform their financial planning. (6 marks).
- (d) Outline the financial control measures adopted by organizations. (6 marks).
- (e) Discuss the determinants of working capital requirement. (6 marks).

**QUESTION TWO.**

- (a) Capital budgeting is an important aspect of financial planning. Discuss the deliverables of effective capital budgeting. (6 marks).
- (b) Outline the classifications of budgets as a tool of financial planning. (8 marks).
- (c) An enterprise has a NOI of shs 50,000 and interest payments of shs 6000. Its equity capitalization rate is 12% and the cost of debt is 8%. Using the NOI approach and the NI approach calculate the value of the firm and the weighted Average cost of capital. (6 marks).

**QUESTION THREE.**

- (a) Evaluate the significance of profit plans in the financial planning process. (8 marks).
- (b) Describe the various users of organizational budgets. (6 marks).
- (c) BCD Ltd manufactures office and household furniture to customer's specifications. Because of the specialized nature of the manufacturing process, each job is treated separately for costing purposes. There are two stages in the manufacture of each item namely, assembly and finishing. In the assembly department, overheads are absorbed on the basis of prime cost incurred in that department. In the finishing department, overheads are applied on the basis of total accumulated cost on the job in both stages inclusive of overhead absorbed in assembly.

The selling price of the item is then determined by applying the usual 40% profit margin.

The following information is provided about budgeted data for the next financial period:

	Assembly	Finishing
Materials	Sh.480,000	Sh.300,000
Overheads	Sh.594,000	Sh.418,500
Labour cost	Sh.180,000	Sh.120,000
Labour hours	3000	1500

**Required**

Calculate the overhead absorption rates for each production process. (6 marks)

**QUESTION FOUR**

Millani General Manufacturers produces three products, namely A,B and C. Given below are the details of raw materials and labour which were used during the year ended 31 December 1996.

Raw Materials	Standard price per Kg	Material requirements (Kg)		
	Sh.	A	B	C
R1	30	4	-	8
R2	15	2	3	-
R3	50	1	5	
Direct Labour	Standard rate per hour	Labour hour requirement		
	Sh.	A	B	C
Skilled	40	10	5	-
Unskilled	25	-	3	8

The production overhead which was Sh.500,000 was absorbed on the basis of direct labour hours.

Non-production overheads were absorbed on the basis on 20% of production cost.

Profit is calculated as 25% of the total cost.

The following information is also available for the year:

		A	B	C
1. Sales for the year		Sh. 7,350,000	4,125,000	3,255,000
2. Finished goods stock valued at standard total production cost:	1 January	Sh.490,000	440,000	620,000
	31 December	Sh. 350,000	330,000	403,000
3. Direct labour hours		28,000	12,000	10,000
4. Raw materials		R1	R2	R3
		Sh.	Sh.	Sh.
	1 January	15,000	10,000	17,500
	31 December	24,000	16,500	12,300

**Required**

- a) The standard selling price per unit of each product (8 marks)
- b) The production budget in units (6 marks)
- c) The direct materials purchase budget. (6 marks)

**QUESTION FIVE.**

- (a) Explain the objectives of capital budgeting. (5 marks)
- (b) An investment firm is considering two projects. Project A costs shs 500,000 and is expected to generate revenues of shs, 80,000 pa for the next five years. While project B costs shs 700,000 and is expected to generate average revenues of shs 80,000 pa for a period of 5 years. Calculate the net present value, profitability index and the payback period of the projects and rank the projects, given that project A is capitalized at 12% and project B at 9%. (10 marks).
- (c) Define financial leverage and discuss any two types of leverage. (5 marks).