



**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**SCHOOL OF BUSINESS AND ECONOMICS**  
**UNIVERSITY EXAMINATION FOR THE BACHELOR OF BUSINESS**  
**ADMINISTRATION**  
**3<sup>rd</sup> YEAR 2<sup>nd</sup> SEMESTER 2016/2017 ACADEMIC YEAR**  
**MAIN CAMPUS**

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**COURSE CODE: ABA 319**

**COURSE TITLE: FINANCIAL PLANNING, BUDGETING & CONTROL**

**EXAM VENUE**

**STREAM: FINANCE**

**DATE:**

**EXAM SESSION:**

**TIME: 3 HOURS**

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**Instructions:**

- 1. Answer any THREE questions. Question ONE is compulsory**
- 2. Candidates are advised not to write on the question paper.**
- 3. Candidates must hand in their answer booklets to the invigilator while in the examination room.**

**Question one.**

- (a) You have been selected to be the finance manager of Shsha Enterprise, an SME in your town. Explain to the management how you would install the profit planning and control system for Shasha Enterprise. List the main techniques of profit planning you know. **(15 Marks)**
- (b) “Budgeting is the principal tool of planning and control offered to management by accounting function” Discuss **(10 Marks)**

(c) 'Financial Planning is the key to successful business operations'. Comment on this statement (5 Marks)

**Question Two**

The opening balance on 1<sup>st</sup> January was expected to be Sh. 30,000. The sales budgeted were as follows:

|          | Sh.    |
|----------|--------|
| November | 80,000 |
| December | 90,000 |
| January  | 75,000 |
| February | 75,000 |
| March    | 80,000 |

Analysis of records shows that debtors settle according to the following pattern: 60% within the month of sales, 25% the month following, 15% the month following. The extracts from the purchases budget were as follows:

|          | Sh.    |
|----------|--------|
| December | 60,000 |
| January  | 55,000 |
| February | 45,000 |
| March    | 55,000 |

All purchases are on credit and past experience shows that 90% are settled in the month of purchase and the balance settled in the month after. Wages are Sh. 15,000 per month and overheads of Sh. 20,000 per month (including Sh. 5,000 depreciation) are settled monthly. Taxation of Sh. 8,000 has to be settled in February and the company will receive settlement of insurance claim of Sh. 25,000 in March.

**Required:** Prepare a cash budget for January, February and March (20 Marks)

**Question Three**

The following data relate to the working of a factory for the year 2004:

Capacity worked at 50%

|                      | Sh           | Sh     |
|----------------------|--------------|--------|
| Fixed Costs:         |              |        |
| Salaries             | 84000        |        |
| Rent and rates       | 56000        |        |
| Depreciation         | 70000        |        |
| Other Admin Expenses | <u>80000</u> | 290000 |
| Variable Costs:      |              |        |
| Materials            | 240000       |        |
| Labour               | 256000       |        |
| Other Expenses       | <u>38000</u> | 543000 |

Possible sales at various level of working are:

| <i>Capacity</i> | <i>Sales</i> |
|-----------------|--------------|
|                 | Sh.          |
| 60%             | 950000       |

|      |         |
|------|---------|
| 75%  | 1150000 |
| 90%  | 1375000 |
| 100% | 1525000 |

**Required:** Prepare a flexible budget and show the forecast of profit at 60%, 75%, 90% and 100% capacity operations **(20 Marks)**

#### Question Four

A manufacturing company submits the following figures for the first Quarter 2006:

|   | Product<br>X | Product<br>Y | Product<br>Z |
|---|--------------|--------------|--------------|
| Sales in Units January  | 25,000       | 30,000       | 10,000       |
| February  | 20,000       | 25,000       | 10,000       |
| March   | 30,000       | 35,000       | 10,000       |
| Selling price per unit  | Sh. 10       | Sh. 20       | Sh. 40       |
| Target for 1 <sup>st</sup> quarter 2007:                                    |              |              |              |
| Sales quantity increase   | 20%          | 10%          | 10%          |
| Sales price increase  | Nil          | 10%          | 25%          |
| Stock position 1 <sup>st</sup> January 2007 (% of Jan. 2007 Sales)          | 50%          | 50%          | 50%          |
| Stock position 31 <sup>st</sup> March 2007                                  | 20,000       | 25,000       | 5,000        |
| Stock position end of Jan & Feb<br>(Percentage of subsequent month's sales) | 50%          | 50%          | 50%          |

**Required:** Prepare the sales budget and production budget for the 1<sup>st</sup> quarter of 2007 **(20 Marks)**

#### Question Five

- (a) What do you understand by 'Zero Based Budgeting?' Where can zero based budget be applied? Discuss the merits and demerits of zero based budgeting **(14 Marks)**
- (b) Explain the concept of Responsibility accounting **(6 Marks)**