



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS & ECONOMICS
UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION WITH IT
3RD YEAR 2ND SEMESTER 2015/2016 ACADEMIC YEAR
SPECIAL EXAM

COURSE CODE: ABA 319

COURSE TITLE: FINANCIAL PLANNING, BUDGETING AND CONTROL

EXAM VENUE: LAB 1

STREAM: (BBA-FINANCE)

DATE: 06/05/16

EXAM SESSION: 9.00 – 11.00 AM

TIME: 2 HOURS

Instructions:

- 1. Answer Question ONE (COMPULSORY) and ANY other 2 questions**
- 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) The following was the ending remarks from a speech delivered by the Chairman KEPSA in a financial planning and budgeting forum in Kisumu in January 2015

“No matter how sophisticated a system of internal control might be, its success ultimately requires that you place your trust in certain key personnel for certain level of access and authorization to make them fully functioned according to the control system set by the your organization”

Required

With reasons, argue for and against the relevance of the statement to the success of a budgetary control system in an organization. **6 Mks**

- b) Annex Ltd has been experiencing a Sh. 200,000 increase in sales each month for the past half year and it anticipates this monthly increase will continue for the immediately foreseeable future. Its profit statement as at June 2015 was as follows:

	Sh.	Sh
Sales		2,000,000
Costs: Direct Materials	1,000,000	
Direct labour	400,000	
Variable overheads	200,000	
Fixed overheads	200,000	
Rent	50,000	(1,850,000)
Profit	150,000	

Additional information

The company's sales are on credit, the debtors paying two months after the sale while creditors for materials and overheads are paid after the company has taken one month's credit.

Labour costs are paid as they are incurred and rent is paid quarterly. In Last month of June, rent was paid and the month-end cash balance was sh 100,000.

A total of Sh 100,000 capital expenditure is planned for month 2 only.

There are no stocks kept at any time

Required

Prepare the cash budget for the next four months (July - October 2015) **12 Mks**

- c) Describe any four important responsibility centers in profit making organizations explaining how responsibility can be exercised on each one of them **4Mks**

- d) Discuss any four major benefits of having reliable profit plans in a company **8 Mks**

QUESTION TWO

- a) Describe four ways on how computers and data processing systems can be used in financial planning and control. **12Mks**
- b) Discuss any four differences between master budgets and zero-base budgets **8Mks**

QUESTION THREE

Santa ltd manufacturer's children toys and its range consists of four different models, a school, a house, a boat and a caravan.

Over 90% of sales are made in two months of the year and for this reason the establishment of accurate budgets is essential. You are provided with the following information relating to projections for October and November 2015.

Sales/ Details	School	House	Boat	Caravan
Quantity	12,000	15,500	9,000	8,500
Price; shs/unit	10	14	20	12
Material usage/ price (shs)				
Moulded plastic	4	6	8	5
Accessories (brought in)	2	2	1	1
Perking (per toy)	2	2	1	1

Additional information

Wages cost if sh 1 per unit for each model

Stocks of raw materials and work in progress are to be zero at the beginning and at the end of the period. Finished stocks will be built up during the earlier part of the year and it is anticipated that some stocks will be in hand at 30th November;

Finished goods

Estimated stock

	1/10/2015	30/11/2015
Schools	6,000	1,500
Houses	8,000	2,000
Boats	6,000	1,000
Caravan	4,500	500

Required;

- a) Prepare the following budgets for the month of October and November for the company
- Sales budget **2Mks**
 - Production budget **4Mks**
 - Material usage **4Mks**
 - Material purchases budget **4 Mks**
- b) Prepare a budgeted trading account as at 30th November 2015 showing the projected gross profit **6 Mks**

QUESTION FOUR

- a) The real question facing a production manager when preparing a production budget estimate is the lot size which is just right in terms minimizing production costs. Discuss. **8 Mks**
- b) The following information was obtained from the books of Kamau and sons ltd for the month of June 2015
- The Actual labour hours used in production for the month was 130 hours, budgeted variable overhead rate is sh9.40 per direct labor hour and actual variable overhead rate is sh8.30 per direct labor hour. The actual number of units produced for the month was 620 units and the standard budgeted labour hours for each unit produced was 0.2

Required

- i) With an explanation, determine the variable overhead spending variance for Kamau and sons ltd for June **4 Mks**
- ii) Calculate the variable overhead efficiency variance and explain whether its favourable or unfavourable **4 Mks**
- c) In planning process, the broad purpose and reason for an organization's existence is crucial, Discuss **4 Mks**

QUESTION FIVE

George has recently been appointed vice president of operations for Wiki Ltd. The company's business segments include manufacture of heavy equipment, food processing, and financial services. George has suggested to Wiki's chief budget officer, Karen, that department managers should be evaluated on data contained in the company's annual reports, which presents revenues, earnings, identifiable assets, and depreciation for each segment for a five-year period. George reasons that departmental managers may be appropriately evaluated by the same criteria used to evaluate top management. Karen has doubts about using information from the annual report for that purpose and suggests that George consider other ways of evaluating the departmental managers.

Required

- i) What legitimate concerns might Karen have regarding the evaluation of departmental managers using departmental information prepared for public reporting? **8 Mks**
- ii) Discuss any five possible behavioral impacts on Wiki's departmental managers if their performance evaluations are based on published company annual reports? **10 Mks**
- iii) What types of financial information would be more appropriate for George to use in evaluating the performance of departmental managers? **2Mks**