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Past Paper with Answers

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PART A

PAST EXAMINATION QUESTIONS

TOPIC 4

BUDGETARY CONTROL

QUESTION 1

April 2025 Question Two A and B

- (a) Highlight **FOUR** functions of the budget committee in an organisation. (4 marks)
- (b) Salama Ltd. is preparing its master budget for the upcoming quarter in the year 2025. The following information is available:
- Sales Forecast**
April: 10,000 units at Sh.50 per unit
May: 12,000 units at Sh.50 per unit
June: 15,000 units at Sh.50 per unit
 - Production Budget**
Desired ending inventory: 10% of next month's sales
Beginning inventory (April 2025): 1,000 units
 - Direct Material Budget**
Each unit requires 2 kg of raw materials at Sh.5 per kg.
Desired ending inventory of raw materials: 20% of next month's production needs.
Beginning inventory (April 2025): 4,000kg.

Required:

Prepare the following budget for the second quarter of the year 2025 for Salama Ltd:

- Sales budget. (2 marks)
- Production budget. (2 marks)
- Direct materials budget (in units and value). (3 marks)

QUESTION 2

April 2025 Question Two B (Adopted from MA)

- (i) A budget is a planning and control tool expressed in monetary terms. The budget is prepared to perform certain functions.
With reference to the above statement, discuss **FOUR** functions of budgetary control and planning. (8 marks)
- (ii) Beehive Enterprises has provided the following extract of the trial balance as at 1 March 2025:

	Debits	Credits
	Sh.	Sh.
Cash	60,000	
Accounts receivable	195,000	
Allowance for bad debts		24,000
Inventory	120,000	
Accounts payable		90,000

Additional information:

1. Purchases are payable within 10 days. Assume that one-third (1/3) of the purchase of any month are due and paid for in the following month.
2. The unit cost of the inventory purchased is Sh.10. At the end of each month, the firm's policy is to have an inventory equal to 50% of the following month's unit sales.
3. Sales terms include a 1% discount if payment is made by the end of the calendar month in which the sale took place. Past experiences indicate that 60% of the billings will be collected during the month of the sale, 30% in the following calendar month, 6% in the next following calendar month and 4% will be uncollectible.
4. The following data relates to sales:

	Sh.
Selling price per unit	150
January 2025 actual sales revenue	150,000
February 2025 actual sales revenue	450,000
March 2025 actual sales revenue	360,000
April estimated sales revenue	270,000
Total sales expected in the fiscal year	4,500,000

5. The firm's fiscal year begins on 1 January of every year.
6. Exclusive of bad debts, the total budgeted selling and general administrative expenses for the fiscal year are estimated at Sh.705,000 of which Sh.210,000 is fixed expense (inclusive of Sh.90,000 annual depreciation charge).
7. Fixed expenses are incurred uniformly throughout the year.
8. The balance of the selling and general administrative expenses varies with sales. Expenses are paid as incurred.

Required:

A cash budget for the month of April 2025.

(8 marks)

PART B

SUGGESTED ANSWERS AND SOLUTIONS

TOPIC 4

BUDGETARY CONTROL

QUESTION 1

April 2025 Question Two A and B

(a) **Functions of the budget committee in an organisation.**

- Preparing the budget manual
- Checking initial drafts and problems
- Ensuring budgets are synchronized within the boundaries of available resources.
- Drawing of the budget timetable / calendar
- Coordinating for proper implementation of budgets
- Receiving and checking budget estimates
- Submitting budget estimates for approval
- Preparing the master budget after the functional budgets have been prepared

(b) **Salama Ltd.**

(i) **Sales budget.**

Month	Units sold	S.P per unit	Amount
April	10,000	50	500,000
May	12,000	50	600,000
June	15,000	50	<u>750,000</u>
		Sh.	<u>1,850,000</u>

(ii) **Production budget.**

	April	May	June
Sales	10,000	12,000	15,000
Add: Closing stock	<u>1200</u>	<u>1500</u>	<u>0</u>
Units required	11,200	13,500	15,000
Less: Opening stock	<u>1,000</u>	<u>1200</u>	<u>1,500</u>
Units to produce	<u>10,200</u>	<u>12,300</u>	<u>13,500</u>

(iii) **Direct materials budget (in units and value).**

	April	May	June
Material needed for production	10,200 × 2 = 20,400	12,300 × 2 = 24,600	13,500 × 2 = 27,000
Add: Closing stock	<u>4,920</u>	<u>5,400</u>	<u>0</u>
	25,320	30,000	27,000
Less: Opening stock	<u>4,000</u>	<u>4,920</u>	<u>5,400</u>
	21,320	25,080	21,600
Cost per unit	5	5	5

Total cost	<u>106,600</u>	<u>125,400</u>	<u>108,000</u>
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QUESTION 2

April 2025 Question Two B (Adopted from FM)

(i) Functions of budgetary control and planning.

- **Cost control:** Facilitates in controlling costs of various activities of the organization in order to achieve desired goals and objectives
- **Resource allocation:** Helps in optimal use of an organization scarcely available resources in order to achieve increased productivity and profitability for the firm.
- **Performance appraisal:** Enables organisations to be able to appraise the performance of its activities for the purpose of providing motivational needs of its workers.
- **Decision making:** effective budgetary control and planning provides useful information to management for effective decision making
- **Communication:** Effective budgetary control and planning enhances communication among members of an organization and hence strengthens employee relations

(ii) Beehive Enterprises

A cash budget for the month of April 2025.

1. Sales

Month	January Sh.	February Sh.	March Sh.	April Sh.
Credit sales	<u>150,000</u>	<u>450,000</u>	<u>216,000</u>	<u>270,000</u>
Debt collection:				
1 st month 60%	90,000	270,000	216,000	162,000
2 nd month 30%	-	45,000	135,000	108,000
3 rd month 6%	-	-	<u>9,000</u>	<u>27,000</u>
Total cash collection	-	-	<u>360,000</u>	<u>297,000</u>

2. Cash discount

Month	March Sh.	April Sh.
Cash discount (1%)	$(1\% \times 216,000) = 2,160$	$(1\% \times 162,000) = 1,620$

3. Purchases

Month	January	Feb	March	April	May
Sales (Sh)	150,000	450,000	360,000	270,000	375,000
Sales units	1,000	3,000	2,400	1,800	2,500
Add closing Inventory (50% next month's sales)	<u>1,500</u>	<u>1,200</u>	<u>900</u>	<u>1,250</u>	

	2,500	4,200	3,300	3,050
Less opening inventory	<u>500</u>	<u>1,500</u>	<u>1,200</u>	<u>900</u>
Production requirements	2,000	2,700	2,100	2,150
Production cost at Sh.10 per unit	<u>×10</u>	<u>×10</u>	<u>×10</u>	<u>×10</u>
Total purchases (Sh.)	<u>20,000</u>	<u>27,000</u>	<u>21,000</u>	<u>21,500</u>
Cash purchases (2/3)	13,333	18,000	14,000	14,333
Credit purchases (1/3)	6,667	9,000	7,000	7,167
	20,000	27,000	21,000	21,500
Credit payment	-	6,667	9,000	7,000

4. Fixed selling and general admin net of depreciation

$$\frac{210,000 - 90,000}{12} = \text{Sh. } 10,000 \text{ P.M}$$

5. Variable selling and general admin expenses

$$705,000 - 210,000 = \text{Sh. } 495,000 \text{ P.A}$$

Month Variable selling and general admin expenses

$$\text{March } \frac{360,000}{4,500,000} \times 495,000 = 39,600$$

$$\text{April } \frac{270,000}{4,500,000} \times 495,000 = \text{Sh. } 29,700$$

6. Closing cash balance for March 2025

Opening cash balance + cash receipts – cash payments

$$= 60,000 + 360,000\text{W1} - 2,160\text{W2} - 14,000\text{W3} - 9,000\text{W3} - 10,000\text{W4} - 39,600\text{W5}$$

$$= \text{Sh. } 345,240$$

Beehive enterprises

Cash budget for the month of April 2025

Month	April 2025
Cash receipts	Sh.
Debtors collection W1	<u>297,000</u>
Total cash receipts (A)	<u>297,000</u>
Cash payments	
Discount W2	1,620
Creditors W3	7,000
Cash purchases W3	14,333
Fixed selling and general admin expenses W4	10,000
Variable selling and general admin expenses W4	<u>29,700</u>
Total cash payment (B)	<u>62,653</u>
Cash surplus (deficit) (A – B)	234,347
Cash bal. b/d	<u>345,240</u>
Cash bal. c/d	<u>579,587</u>