



**INTI**

INTERNATIONAL COLLEGE PENANG (507232-U)  
LAUREATE INTERNATIONAL UNIVERSITIES

Final  
Examination Paper

(COVER PAGE)

Session : April 2017

Programme : DIPLOMA IN FINANCE

Course : FIN2151: BUDGETING

Date of Examination : 5<sup>TH</sup> AUGUST 2017 (SATURDAY)

Time : 11.00am-1.00pm Reading Time : Nil

Duration : 2 Hours

Special Instructions :

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This paper consists of **SIX (6)** questions. Answer any **FOUR (4)** questions in the answer booklet provided. All questions carry equal marks.

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Materials permitted :

Non-Programmable Calculator

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Materials provided :

Answer booklet

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Examiner(s) :

Ms. Suzanna Yew

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Moderator :

Dr. Phua Lian Kee

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*This paper consists of 6 printed pages, including the cover page.*

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INTI INTERNATIONAL COLLEGE PENANG

DIPLOMA IN FINANCE  
FIN2151 BUDGETING

**FINAL EXAMINATION : APRIL 2017 SESSION**

This paper consists of **SIX (6)** questions. Answer any **FOUR (4)** questions in the answer booklet provided. All questions carry equal marks.

**Question 1**

The Statement of Financial Position of Fennix Co. as at 30 June of the last quarter was as follows:-

	\$	\$	
<b>Non-current assets</b> (book value)		17,000	
<b>Current assets</b>			
Inventory	6,000		
Accounts receivable	5,000		
Bank	10,000	21,000	
<b>Total assets</b>		<u>38,000</u>	
<b>Less: Current liabilities</b>			
Accounts payable (due in July)	4,000		
Tax payable	1,000	5,000	
<b>Net assets</b>		<u>33,000</u>	
<b>Stockholders' equity</b>		<u>33,000</u>	

Forecast sales and expenses for the next three months are as follows:-

	July	August	September
	\$	\$	\$
Credit sales	9,500	11,000	12,100
Wages	1,500	1,500	1,600
Other cash expenses	700	750	700

The following information is relevant.

1. Wages and cash expenses are paid within the month incurred.
2. Credit customers normally pay one month after sales.
3. Goods which are sold at a mark-up of 100% in each month, are to be bought at the beginning of the month of sale and paid for in the next month.
4. Inventories are maintained at the same amount as in the last quarter.
5. No equipment is to be purchased or sold in the period. Depreciation is charged on non-current assets at 25% on book value.
6. The tax payable will be paid in August.
7. The bank balance at 30 September is to be determined from balancing the Statement of Financial Position.

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**Required:**

- (a) Prepare the following for the quarter ending 30 September:-
- (i) Budgeted Income Statement for the quarter in total (10 marks)
  - (ii) Budgeted Statement of Financial Position at end of the quarter. (9 marks)
- (b) There are a few methods available to managers in forecasting sales by using the qualitative approach or quantitative approach. Briefly explain **TWO methods** of the **qualitative** approach. (6 marks)

(Total 25 marks)

**Question 2**

The budget committee of ShopA-lot Co. is preparing budgets for the quarter ending 30 September 2018 and has collected the following data:-

- (a) Sales for July are forecasted at \$600,000 and subsequent month's sales are expected to be 10% higher than the preceding month. This pattern of sales is expected to continue for the next 3 months after July 2018. Cost of goods sold is expected to be 75% of sales.
- (b) Ending finished goods inventories are maintained consistently at 20% of the following month's cost of goods sold.
- (c) Estimated operating expenses show the following pattern:-

Sales salaries	\$30,000 per month
Advertising	5% of monthly sales
Delivery expenses	3% of monthly sales
Sales commissions	4% of monthly sales
Rent expense	\$5,000 per month
Depreciation of Office Equipment	\$800 per month
Insurance	\$600 per month
Loan interest	\$500 per month

**Required:**

- (a) Prepare the following **monthly** budgets for the quarter ending 30 September 2018 in columnar form:-
  - (i) Purchases (show 'Expected Sales' & include a 'Total' column) (10 marks)
  - (ii) Expenses (classified by function, 'Total' column is NOT required) (10 marks)
- (b) The budget committee is considering using Zero-based budgeting for its Expenses Budget. Briefly explain what this means for the functional department managers. (5 marks)

(Total 25 marks)

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**Question 3**

- (a) Budgeting plays a number of useful roles in management. Discuss **TWO (2)** of the **roles** of budgeting. (8 marks)
- (b) If you were a manager, what advantages would you expect from the use of budgeting? Discuss **TWO (2) benefits** of budgeting. (6 marks)
- (c) What reservations would you have about budgeting? Discuss **TWO (2) limitations**. (5 marks)
- (d) Briefly explain with graphs, the difference between **Variable** cost & **Fixed** cost, giving **TWO (2)** examples for each. (6 marks)

(Total 25 marks)

**Question 4**

Roxxi-Co achieved well above its targeted sales of 90,000 units for the last quarter but the actual profits earned was surprisingly below the projected profits.

Budgeted data for sales of 90,000 units are as follows:-

Expected selling price per unit \$6.00

<u>Production cost</u>	
Direct materials	\$1.30 per unit
Direct labour	\$1.20 per unit
Variable production overheads	\$0.80 per unit
Fixed production overhead	\$65,000 per quarter
 <u>Selling &amp; Distribution Expenses</u>	
All fixed	\$25,000 per quarter
 <u>Administration Expenses</u>	
All fixed	\$20,000 per quarter

Actual results for the quarter were:-	\$
Sales (100,000 units)	550,000
Direct Materials	143,000
Direct Labour	114,000
Factory overhead - variable	82,000
Factory overhead - fixed	64,500
Fixed selling expense	21,500
Fixed administrative expense	22,000

There were no opening and closing inventories of finished goods.

**Required:**

- (a) Prepare a Flexible Budget Performance Report for the last quarter, using the contribution approach. (16 marks)

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- (b) Analyse the company's performance to explain the shortfall in profits. (5 marks)  
(c) Analyse the direct materials cost variance, giving possible reasons to explain the causes. (4 marks)

(Total 25 marks)

### Question 5

Compkluzz Ltd is a manufacturing company which produces and sells product 'Comkazz' at \$25 per unit. The company is planning for its next quarter from January to March.

The standard costs for the production of each unit of 'Comkazz' are as follows:-

Direct materials – 2kg @ \$1.50 per kg.

Direct labor – 5 hours @ \$3 per hour

Further relevant information are as follows:-

1. Expected sales for the next quarter are – Jan 5000 units, Feb 5900 units, March 6100 units. Actual sales for Nov and Dec were 5300 units and 5500 units respectively.
2. 30% of sales are for cash, the remainder are on credit basis. It is estimated that 20% of the credit sales are collected within the month of sale, 50% in one month after sale, 25% in two months after sales and the remainder be written off as bad.
3. Purchases of materials are made one month in advance for production of the next month's requirement for sale and are payable one month after purchase. Inventories of raw materials and finished goods are maintained at the same level.
4. Wages are paid within the month and fixed overheads will be \$1000 per month, payable in the following month.
5. Balance sheet extract at December 31 revealed the following:-
  - Cash balance \$9775
  - Accounts payable for fixed overheads (one month) \$850
6. The company decided to maintain its closing cash balance at \$40,000 from February onwards. Any surplus cash will be invested at 5% per month.

### Required:

Prepare the following monthly budgets for the quarter January to March (a total column is **not** required):-

- (a) Collection of Accounts Receivable (9 marks)  
(b) Cash (16 marks)

Note: Round all figures to the nearest dollar (\$).

(Total 25 marks)

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**Question 6**

Quiggles Company produces a single product and sells at \$60 per unit. The marketing manager has provided the following sales forecast:-

	units
October	18,000
November	20,000
December	22,500
January	21,000
February	23,000

The company's inventory policy requires **opening inventory** of finished goods to be held at **25%** of **current** month's sales requirement and closing raw materials inventory at **20%** of next month's production requirement.

The standard cost structure per unit is as follows:-

Raw materials (5g @ \$0.60/g)	\$3.00
Direct labour (0.25hr @ \$40/hr)	10.00
Factory overheads (80% of direct labour cost)	<u>8.00</u>
	<u>21.00</u>

**Required:**

Prepare the following **monthly** budgets for the quarter ending 31<sup>st</sup> December 2017 (include total columns):-

- Production budget (in units, up to January) (6 marks)
- Direct Materials Purchase budget (in quantity & \$) (10 marks)
- Direct Labour budget (4 marks)
- Briefly explain the difference between direct costs and indirect costs, giving **TWO (2)** examples of each classification of costs. (5 marks)

(Total 25 marks)

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