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LAUREATE INTERNATIONAL UNIVERSITIES

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Final
Examination Paper

(COVER PAGE)

Session : August 2017

Programme : DIPLOMA IN FINANCE

Course : **FIN2151: BUDGETING**

Date of Examination : 15th December 2017 (Friday)

Time : 08.00am-10.00am Reading Time : Nil

Duration : 2 Hours

Special Instructions :

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

Materials permitted :

Non-Programmable Calculator

Materials provided :

Answer booklet

Examiner(s) : **Ms. Suzanna Yew**

Moderator : **Dr. Phua Lian Kee**

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

INTI INTERNATIONAL COLLEGE PENANG

DIPLOMA IN FINANCE
FIN2151 BUDGETING

FINAL EXAMINATION : AUGUST 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

Given below are details of some of the budgets of Sogo Limited:-

Month	Sales in Units	Wages \$000	Overhead Expenses \$000
August 2017	9,500		
September 2017	10,500	250	112
October 2017	12,000	297	120
November 2017	9,000	264	100
December 2017	10,000	242	101

Additional information:-

- All sales are made at a price of \$100 per unit. Half of the sales are made for immediate cash settlement. The remainder of the sales are on credit. Payment for credit sales is received as follows – 75% in the month following sale and 25% in two months following sale.
- Purchases are planned as follows:-

September	\$540,000
October	600,000
November	510,000
December	630,000

 All purchases are made on one month's credit, i.e. payments are made in the following month after purchase.
- Wages and overheads are paid as incurred.
- The company is making a monthly repayment on a bank loan for the amount of \$30,000 each month. Interest on the loan will be paid in October \$4,500 and in December \$4,000.
- The company plans to purchase a machine costing \$400,000 in September, requiring a deposit on the machine of 10% to be paid immediately. In December, when the machine is expected to be installed and in full production, the balance due will be paid.
- Tax of \$150,000 will be paid on 1 December.
- Cash at bank on 1 October will be \$24,000.

Required:

Prepare the following for the quarter ending 31 December:-

- (a) Schedule of Collection of Accounts Receivable (6 marks)
 (b) Cash budget (19 marks)

Note: Total column is NOT required for (a) & (b).

(Total 25 marks)

Question 2

Wrigglers Company, a manufacturer, is currently preparing budgets for the next quarter ending 31st December. The marketing manager has provided the following sales forecast:-

	Sales units
October	8000
November	8500
December	9500
January	10000
February	11000

The company's inventory policy requires **closing inventory** of finished goods to be held at **20%** of next month's sales and closing raw materials inventory at **10%** of next month's production requirement.

The production cost structure per unit is as follows :-

Raw materials (5g @ \$0.60)	\$3.00
Direct labour (30minutes @ \$15 per hour)	7.50
Factory overheads (120% of direct labour cost)	<u>9.00</u>
	<u>19.50</u>

Required:

Prepare the following budgets for the 3 months ending 31 December:-

Note: A total column for the quarter is required only for (b) & (c).

- (a) Production budget (in units) (6 marks)
 (b) Materials Purchase budget (in quantity & \$) (8 marks)
 (c) Direct Labour budget (in hours & \$) (3 marks)
 (d) Factory Overheads budget (in \$) (2 marks)
 (e) Cost of Production budget (4 marks)

(Total 25 marks)

Question 3

(a) For each of the following pairs, explain the difference between the two terms:-

- (i) Variable cost & Fixed cost
- (ii) Direct cost & Indirect cost
- (iii) Product cost & Period cost

(14 marks)

(b) Budgeting is a useful tool in management **planning** and **control**. Discuss how it can aid management in these functions. (6 marks)

(c) Explain how the classification of costs into their 'variable' and 'fixed' elements, can facilitate in management's analysis of their company's performance and the areas that require investigation for corrective action to be taken. (5 marks)

(Total 25 marks)

Question 4

(a) Explain the use of **flexible budget** in the performance report and contrast it with the **static budget**. (5 marks)

(b) Flexi-Toy Corporation is a company which produces rubber toys for children. The managing director would like to see the projected profits for the next budget quarter ending 30th June, for a range of sales levels and has asked you to prepare a flexible budget based on the following estimates :-

Sales Level (units)

80,000
90,000
100,000

Expected selling price per unit \$6.00

Production cost

Direct materials	\$1.30 per unit	
Direct labour	\$1.20 per unit	
Variable production overheads (based on 70,000 units)		\$ 56,000
Fixed production overhead - Rent of factory		\$ 25,000
Other fixed overheads		\$ 45,700

Selling & Distribution Expenses

Sales commission - 10% of sales revenue		\$ 32,000
Fixed selling & distribution expenses		

Administration Expenses

All fixed		\$ 28,500
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Required:

Prepare a Flexible Budget Income Statement for the period ending 30th June, using the contribution approach, showing projected profits at 80,000 units, 90,000 units & 100,000 units level of activity.

(20 marks)

Question 5

(Total 25 marks)

A-Kon Manufacturing Co. has just prepared its Performance Report for the last quarter as shown below.

A-Kon Manufacturing Co. Performance Report April – June Quarter					
	Master budget	Activity volume variance	Flexible budget	Flexible budget variance	Actual results
Units sold	100,000	10,000 U	90,000	-	90,000
Unit price	\$330		\$330	-	\$330
	\$'000	\$'000	\$'000	\$'000	\$'000
Sales	33,000	3,300 U	29,700	-	29,700.0
Less: Variable costs					
Direct materials (\$120/unit)	12,000	1,200 F	10,800	607.5 U	11,407.5
Direct labour (\$50/unit)	5,000	500 F	4,500	360 U	4,860.0
Factory overhead (\$40/unit)	4,000	400 F	3,600	180 U	3,780.0
Selling & administrative expense (\$60/unit)	6,000	600 F	5,400	450 F	4950.0
<i>Total variable expense</i>	27,000	2,700 F	24,300	697.5 U	24,997.5
Contribution margin	6,000	600 U	5,400	697.5 U	4,702.5
Less: Fixed costs					
Factory overhead	270	-	270	30 U	300.0
Selling & administrative expense	200	-	200	25 F	175.0
<i>Total fixed expense</i>	470	-	470	5 U	475.0
Net profit	5,530	600 U	4,930	702.5 U	4,227.5

Required:

- (a) Analyse the overall performance in the recent quarter and explain the shortfall in profit when compared to the master budget. (9 marks)
- (b) Explain and suggest possible reasons for the following variances:-
- Direct materials, analysed into price & usage
 - Direct labour, analysed into rate & efficiency
- (12 marks)
- (d) Discuss **TWO (2)** steps that can be taken to improve labour efficiency in production. (4 marks)

(Total 25 marks)

Question 6

Emily, a sole proprietor, has planned for the next quarter ending 31st December as follows:-

1. Forecast sales: October \$14,500, November \$14,000, December \$15,500. All sales are on credit and are collected one month after sales.
2. Cost of sales are 62.5% of sales, closing inventory is estimated at \$3,200. All purchases are made for cash.
3. Operating expenses: Marketing 10% of sales, Administrative 5% of sales, Financial interest \$2,000 per quarter.
4. Motor vehicles are depreciated at 20% p.a. and furniture & equipment at 10% p.a. The straight line method is applied to all non-current assets. Land is not subject to depreciation.
5. At 31st December, \$4,000 will be paid for the bank loan but half of the quarter's financial interest will be accrued.
6. Emily will be making cash drawings of \$1,000 per month.
7. The cash at bank will be overdrawn by \$8,700 at 31st December.

The trial balance at end of the last quarter ended 30th September is as follows:-

	DR	CR
Cash at bank	\$ 2,500	
Bank loan		\$ 41,800
Inventory	3,000	
Accounts receivable	3,600	
Land	180,000	
Furniture & equipment	5,000	
Accumulated depreciation – furniture & equipment		1,000
Motor vehicles	12,000	
Accumulated depreciation – motor vehicles		4,000
Accrued interest		1,000
Capital - Emily		158,300
<i>Total</i>	206,100	206,100

Required:

- (a) Prepare the following for the quarter ending 31st December:-
 - (i) Budgeted Income Statement (10 marks)
 - (ii) Forecast Statement of Financial Position (10 marks)
- (b) What steps in budgetary control could Emily take to ensure attainment of the projected results? (5 marks)

(Total 25 marks)