



INTI
International College Penang

FINAL
Examination Paper

(COVER PAGE)

Session : April 2018

Programme : Diploma In Finance (DIF)

Course : **FIN2151 BUDGETING**

Date of Examination : 27th July 2018 (Friday)

Time : 11:00am – 01:00pm 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 Scientific Calculator

Materials provided :

Nil

Examiner(s) : **Kee Cheun Howe**

Moderator : **Dr. Phua Lian Kee**

This paper consists of 7 printed pages, including the cover page.

INTI INTERNATIONAL COLLEGE PENANG
DIPLOMA IN FINANCE PROGRAMME (DIF)
FIN 2151: BUDGETING
FINAL EXAMINATION: APRIL 2018 SESSION

This paper consists of **SIX (6)** questions. Answer any **FOUR (4)** questions. All questions carry equal marks.

Question 1

- (a) Discuss **FOUR (4)** uses of budgeting systems in an organization in each of the following areas:
- (i) Planning; and (8 marks)
 - (ii) Control (8 marks)
- (b) Discuss **THREE (3)** limitations of budgetary controls. (6 marks)
- (c) Briefly distinguish between budgeting and forecasting. (3 marks)
- (25 marks)**

Question 2

Good Sales Sdn Bhd manufactures and sell a seasonal product that has peak sales in the third quarter. The following data provided concerns operations for the year 2019, which is the coming year, and for the first two quarters of 2020.

	2019 (by quarter)				2020 (by quarter)	
	1	2	3	4	1	2
Budgeted sales in units	40,000	60,000	100,000	30,000	50,000	40,000

The product sells for RM 9.00 per unit. Effective quarter 3 of the year 2019, selling price is to be increased to RM12 per unit. The above data is for the anticipated sales in units for the next six (6) quarters. Good Sales makes all of its sales on credit to its customers. Good Sales intends to purchase a new piece of machinery that will cost RM2,500,000 at the beginning of the second quarter of the year 2020.

Sales are collected in the following pattern: 70% in the quarter the sales are made, 20% in the following quarter. 10% of sales are usually bad. At the beginning of January, 2019, accounts receivables show RM 60,000. All of the accounts receivable will be collected in the first quarter of the year.

Required:

(a) Prepare the following:

(i) a sales budget and,

(6 marks)

(ii) a schedule of the expected cash collections for the year 2019.

(12 marks)

(b) If Good Sales intends to keep 20% of their cash as reserve, will they be able to purchase the machinery in the second quarter? What other factors should the management consider apart from the cash balance?

(7 marks)

(25 marks)

Question 3

You have been given the following operating income statement, for Rapid Sdn Bhd, which is supposed to represent a comparison of the actual performance with budgeted performance for the quarter just ended.

	Budget	Actual	Variance
Number of units sold ('000)	640	720	80
	RM'000	RM'000	RM'000
Sales	1,024	1,071	47
Cost of sales			
Variable costs	440	468	(28)
Fixed costs	100	94	6
	<u>540</u>	<u>562</u>	<u>(22)</u>
Gross profit	484	509	(25)
Selling and distribution costs			
Fixed	72	83	(11)
Administration			
Fixed	184	176	8
Variable	48	54	(6)
	<u>448</u>	<u>466</u>	<u>2</u>
Net Profit	<u>180</u>	<u>196</u>	<u>(34)</u>

- (a) Using a flexed budgeting approach, re-draft the operating income statement so as to provide a more realistic indication of the variances. (14 marks)
- (b) Explain the variances for the following items after re-drafting the operating income statement (6 marks)
- sales
 - fixed selling and distribution cost
- (c) Briefly explain why the original operating income statement was of little use to the management. (5 marks)
- (25 marks)**

Question 4

Khidmat Baru Sdn Bhd uses variance analysis as a method of cost control. The following information is available for the year ended 31st December.

Budget	Production for the year	12,000 units
	Standard cost per unit:	\$
	Direct materials (3kg at \$10/kg)	30
	Direct labour (4 hours at \$6/hour)	24
	Overheads (4 hours at \$2/hour)	8
		62
Actual	Actual production units for year	11,500 units
	Labour - hours for the year	45,350 hours
	Labour - cost for the year	RM300,000
	Materials - kg used in the year	37,250 kg
	Materials - cost for the year	\$345,000

Required:

- (a) Prepare a reconciliation statement between the budgeted and actual prime costs. (20 marks)
- (b) Explain the labour variances calculated in (a). (5 marks)
- (25 marks)**

Question 5

Usahasetia manufactures and sells one product. Its budgeted statement of profit or loss for the first month of trading is as follows:

	<u>RM</u>	<u>RM</u>
Sales (1,200 units at RM180 a unit)		216,000
Less: Cost of sales:		
Production (1,800 units at RM100 a unit)	180,000	
Less: Closing inventory (600 units at RM100 a unit)	(60,000)	
	<hr/>	(120,000)
Gross profit		<hr/> 96,000
Less: Fixed selling and distribution costs		(41,000)
Net profit		<hr/> <hr/> 55,000

The budget was prepared using absorption based principles. If budgeted production in the first month had been 2,000 units then the total production cost would have been RM 188,000.

Required:

- (a) Calculate the variable production cost for a unit. (5 marks)
 - (b) Calculate the total monthly fixed production cost (5 marks)
 - (c) Prepare the budgeted statement of profit or loss for the first month using the marginal format (10 marks)
 - (d) Explain why the profit or loss is different between the two methods. (5 marks)
- (25 marks)**

Question 6

Wawasan Bhd wishes to calculate an operating budget for the forthcoming period. Information regarding products, costs and sales levels is as follows:

Product	A	B
Materials required		
X (kg)	2	3
Y (litres)	1	4
Labour hours required		
Skilled (hours)	4	2
Semi-skilled (hours)	2	5
Sales level (units)	2,000	1,500
Opening inventory (units)	100	200

Closing inventory of materials and finished goods will be sufficient to meet 10% of sales. Opening inventory of material X was 300 kg and for material Y was 1,000 litres. Material prices are RM 10 per kg for material X and RM 7 per litre for material Y. Labour costs are RM 12 per hour for the skilled workers and RM 8 per hour for the semi-skilled workers.

Required:

Based on the information given above, prepare the following budgets:

- (a) Production (in units) (5 marks)
- (b) Materials usage (kg and litres) (5 marks)
- (c) Materials purchases (kg, litres and RM); and (10 marks)
- (d) Labour (hours and RM). (5 marks)
- (25 marks)**

~ The End ~
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