

**Managerial Accounting Test Paper Questions
On
BUDGETING**

E-Books from <http://www.fmaccounting.com> and <http://www.basiccollegeaccounting.com>

This Managerial Accounting Test Paper Questions & Answers consist of the following

- Part A: 6 Questions on Structured Questions**
Part B: 10 Questions on Short Questions

PART A:

QUESTION NO 1:

At 1 January, Company XYZ Ltd has the following:

	\$
Fixed Assets	200,000
Stocks	190,000
Bank Balance	90,000
The Budget for first quarter are as follows:	
(1) Sales for the month of:	
January	300,000
February	600,000
March	700,000
(2) Gross profit margin	25% of sales
(3) Bad Debts	1 % of sales
(4) Variable selling overheads	
(5) Fixed selling overheads excluding depreciation	
(6) Depreciation of fixed assets	
(7) Variable administration overheads	
(8) Fixed administration overheads excluding depreciation	
(9) Credit terms-sales, purchases and overheads. There is no outstanding debtors or creditors on 1 January	1 month credit term
(10) The assets at 1 January have been paid for except for the stocks, the balance outstanding of \$50,000 will be paid during January	
(11) The stocks are to held at the level of 1 January	

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Required:

- (a) Prepare a **Profit statement** to show the Profit for the quarter ended 31 March
- (b) Prepare a **Cash Budget** for January, February and March

QUESTION NO. 2:

XYZ Ltd is preparing budget for the year ended 31 December 2006. The company manufactures and sells one product. The selling price is \$150 per unit but this will increase to \$160 as from 1 July 2005. The budgeted sales volumes are:

	Units
January to March	40,000
April to June	50,000
July to September	30,000
October to December	45,000

Sales for January to March 2007 are expected to be 40,000 units

Each unit of products uses 3 units of Component A, 2 units of Component B and 1 unit of Component C, the current unit price of which are as follows:

	\$
Component A	9
Component B	6
Component C	25

Component A and B are expected to increase in price by 10% from 1 April 2006. Component C will rise by 5% from the same date. Labour costs for the product are \$30 per unit, this will increase by 5% from 1 October 2006

Variable production overhead will be \$10 per unit. Fixed production overhead is budgeted at \$264,000 for the year and incurred evenly over each period

Stock of finished units is budgeted at 20% of the next three month period's sales. No stock of components are held.

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Required:

Prepare the following budgets for XYZ Ltd for each of the four three-month periods of 2006

- (a) Sales budget (in \$ and units)
- (b) Production budget (in units)
- (c) Component usage budget (in units)
- (d) Production cost budget (in \$'000)

QUESTION NO. 3

XYZ Ltd which manufactures and sells one product is preparing its budget for the three months, July, August and September 2007.

Forecast sales are as follows:

	Units
July	18,000
August	22,000
September	24,000
October	20,000
November	21,000

The company aims:

- to carry finished goods stock equal to 50% of the following month's sales at the end of each month.
- to maintain raw material stocks at the end of each month equal to 20% of next month's production requirements.

Stocks on 30 June are expected to be:

Finished goods	9000 units
Material A001	8,000 kg
Material B001	12,000 kg

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Standard product details, forecast prices and fixed overheads for the next 3 months are:-

Material A0001	\$4 per kg
Material B0001	\$6 per kg
Direct labor 1.5 hours at	\$4 per kg
Variable production overheads	\$2 per labor hour
Variable selling overheads	2.5% of sales value
Forecast selling price	\$50 per unit
Fixed overheads:	
Production	\$324,000
Selling and distribution	\$125,000
Administration	\$105,000

Required:

(a) Prepare the following budgets for each month and in total for 3 months

- Production in units
- Purchases for Material B001 in kg and \$

(10 marks)

(b) Prepare a budgeted Profit and loss Account in marginal costing format for the 3 month period ending 30 September (6 marks)

(c) Suggest 2 reasons for preparing a Purchasing budget (4 marks)

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QUESTION NO. 4

Company XYZ Ltd produces and sells one product. The company is preparing its budget for its forthcoming year, which ends in December.

The following fixed costs are planned to be incurred:

	\$'000
Production overheads	720
Administration overheads	480
Selling overheads	240

The planned selling price per unit and variable costs per units for the product are as follows:

	\$
Selling price	106
Variable costs	
Direct material -10 kg	40
Direct labour-6hours	30
Variable overheads-6 hours	12

The company has set a profit objective of \$480,000 for the forthcoming year.

Each of the months of March, June, September and November are expected to achieve 10% of the planned sales quantity. The remainder of the planned sales quantity is expected to be achieved equally in all of the other months.

The production of each month's sales is planned as follows:

- 40% of each month's sales are produced in the month before sale
- 60% of each month's sales are produced in the month of sale.

The purchase of the direct materials required for each month's production is planned as follows:

- 50% of each month's direct materials requirements are purchased in the month before the materials are required
- 50% of each month's direct materials requirements are purchased in the month the materials are required.

The stock of direct materials and finished goods at 1 January should be assumed to be consistent with the above policies.

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Required:

- (a) Compute the total budgeted sales quantity(units) for the forthcoming year(6marks)
- (b) Compute the budgeted sales quantity for each of the months of May and November (5 marks)
- (c) Prepare the production quantity (units) budget for each of the first three months of the forthcoming year (6 marks)
- (d) Prepare the direct materials purchases budget (in kilogram and value) for the first three months of the forthcoming year (3 marks)

QUESTION NO.5

Company XYZ Ltd commences trading on 1 June with a capital of \$240,000. The following estimates have been made:

- (a) Plant and equipment costing \$160,000 will be purchased and installed prior to commencement of the business. The plant and equipment is payable in June and will be depreciated on a straight line basis over eight years with no expected disposal value
- (b) On 1 June an initial stock of goods will be purchased for \$96,000 payable in July. All goods sold from 1 June will be replaced immediately. Purchases will be on two months credit.
- (c) Gross profit will be 33 1/3% on the cost of goods
- (d) Forecast sales for the first three months are :
 - June \$92,000 ; July 108,000 & August \$124,000
 - Sales is on credit payable in the month following sale
- (e) Rent and rates, of \$32,000 for twelve months from 1 June is payable in July
- (f) Wages and other overheads commencing in June are estimated at \$24,000 per month. 50% will be paid in the month incurred with the balance payable in the following month

Required:

Prepare:

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- (a) A cash budget for each of the three months June, July and August
- (b) A budgeted Profit and Loss Account for the three months in total
- (c) A budgeted BALANCE SHEET at 31 st August

QUESTION NO.6

Company XYZ Ltd manufactures and sells two products with the following details:

	Product A	Product B
	\$/unit	\$/unit
Direct materials	4.60	6.00
Direct labour	2.50	2.70
Variable overheads	0.70	0.80
Fixed overheads	4.20	5.60

The company is working at maximum machine hour capacity. Fixed production overheads are absorbed on the basis of machine hours at a rate of \$14.00 per hour.

Production and sales per period at maximum capacity are:

Product A	1,800 units (sold at\$16.00 per unit)
Product B	2,400 units (sold at \$19.50 per unit)

The company proposed to-reorganize its production facilities in order to increase capacity. As a result of the re-organization:

- (a) Unit variable production costs will remain unchanged
- (b) Machine hour capacity will increase b 10%
- (c) Fixed production overhead expenditure will increase by 3%
- (d) The additional machine hours will be allocated to the most profitable product, on the assumption that any additional production of either product can be sold at current selling prices. [Production of Products A & B must be at least 1,800 and 2,400 units respectively.

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Required:

Compute per period the

- (a) Current machine hour capacity (4 marks)**
- (b) Current total gross profit(4 marks)**
- (c) Additional gross profit if the production facilities are re-organized as described above.(12 marks)**

PART B:

SHORT QUESTIONS ON BUDGETING:

1.

What is the principal budget factor and give 6 examples and why must it be identified (5marks)

2.

Give 4 criticisms of traditional budgetary control process (5marks)

3.

Describe 4 benefits to be gained from a system of Budgetary Control (5marks)

4.

Identify 3 behavioural problems associated with budgetary control (5marks)

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5. State 3 objectives of budgetary planning and control systems (5 marks)

6. Say, in a manufacturing company, state five functional budgets and suggest the Manager responsible for the preparation of each one (5 marks)

7. Describe what is meant by a system of continuous budgeting (3 marks)

8. Explain what is meant by the terms "fixed budget" and "flexible budget" (3 marks)

9. State the main objective for preparing flexible budgets (3 marks)

10. Why is a capital budget expenditure budget different to most other budget? (3 marks)

ANSWERS TO PART A

QUESTION NO. 1

1(A) PROFIT STATEMENT FOR THE QUARTER ENDED 31 MARCH

	Workings	\$	\$	
Sales	W1		1,600	
Less :				
Cost Of Sales (75% x \$1,600,000)			1,200	
			400	

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Selling overheads:		160		
Variable (10% x \$1,600)				
Fixed (\$25 x 3 months)		75		
Administration overheads:		32		
Variable (2% x \$1,600)				
Fixed (\$15 x 3 months)		45		
Depreciation (\$20 / 4)		5		
Bad debts	W2	9		
			326	
Net Profit			74	

1(B) CASH BUDGET FROM JANUARY TO MARCH

	Working	JANUARY	FEBRUARY	MARCH
		\$	\$	\$
Balance b/d		90	40	36
Add:				
Receipts from debtors	W1	0	297	594
Total Cash Inflows		90	337	630
Less:				
Expenses:				
Purchases	W3	50	225	450
Variable selling overheads		-	30	60
Fixed selling overheads		-	25	25
Variable administration overheads		-	6	12
Fixed administration overheads		-	15	15
Total Cash Out-flows		50	301	562
Balance c/d		40	36	68

WORKINGS(W):

W1: Sales	\$'000	Receipts from Debtors	\$'000	\$'000
January	300		0	
February	600	(99% x \$300)	297	
March	700	(99% x \$600)	594	
	1,600			
		(Note: Receipts from debtors = 100%-1%		

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		(bad debts)=99% of sales		
W2 : Bad debts		1% (Sales for January & February) =1% x(\$300+\$600)	9	
W3: Purchases				
Cost of sales		75% of sales	225	450
Add:				
Closing stock			190	190
			415	640
Less: Opening stock			190	190
Purchases			225	450
W3: Purchases				
Payment made for purchase (1 month credit)				
January	50	December'2006		
February	225	January 2007		
March Purchases	450	February 2007		

SUGGESTED SOLUTION TO QUESTION NO 1

2 (a) Sales Budget (\$'000 & units)

	Q1	Q2	Q3	Q4
Sales volume budget (units)	40	50	30	45
X Selling price(\$ per unit)	150	150	160	160
Sales Budget (\$'000)	6,000	7,500	4,800	7,200

2 (b) Production Budget (units)

	Q1	Q2	Q3	Q4
Sales volume budget(units)	40	50	30	45
Add:				
Closing stock(20% next quarter sales)	10	6	9	8

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Less:				
Opening Stock	0	10	6	9
Production Budget (units)	50	46	33	44

2 (c) Component Usage Budget(Units)

	Q1	Q2	Q3	Q4
Component A(3 units)	150	138	99	132
Component B(2 units)	100	92	66	88
Component C (1 unit)	50	46	33	44

2 (d) Production Cost Budget (\$'000)

	Q1	Q2	Q3	Q4
Material				
A(\$9/\$9.9)	1,350	1,366.2	980.1	1306.8
B(\$6/\$6.6)	600	607.2	435.6	580.8
C(\$25/\$26.25)	1,250	1,207.5	866.25	1,115.0
Total Material	3,200	3,180.9	2,281.95	3,042.6
Labor	1,500	1,380.0	990.0	1,386.0
Variable Overheads	500	460	330	440
Fixed Overheads	66	66	66	66
Production Cost	5,266	5,086.9	3,667.95	4,934.6
Fixed Production Overhead				
=\$264,000/4=\$66,000 per quarter				

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SUGGESTED SOLUTION TO QUESTION NO.3

3 (a1) Production Budget (\$'000)

	July	August	September	Total
Sales	18	22	24	64
Closing stock	11	12	10	10
Opening stock	(9)	(11)	(12)	(9)
Production	20	23	22	65

3 (a2) PURCHASES BUDGET-B0001

	July	August	September	Total
	Kg'000	Kg'000	Kg'000	Kg'000
Material usage	40	46	44	130
Closing stock	9.2	8.8	8.2	8.2
Opening stock	(8)	(9.2)	(8.8)	(8)
Purchases(kg'000)	41.2	45.6	43.4	130.2
Cost per kg(\$)	4	4	4	4
Purchases value(\$'000)	164.8	182.4	173.6	520.8

Workings:		
Direct material		\$
A0001	2kg x \$4	8
B0001	3kgx\$6	18
Direct labor	1.5hours x\$4	6
Variable production overhead	1.5 hours x\$2	3
		35

3 (b) Budgeted Profit & Loss Account

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		\$'000	\$'000
Sales	64x\$50		3,200
Less:			
Cost of sales			
Opening stock	9x\$35	315	
Production cost	65x\$35	2,275	
Less:			
Closing stock	10x\$35	350	2,240
Gross margin			960
Variable selling overheads	2.5% x\$3,200		80
Contribution			880
Fixed Costs:			
Production		324	
Selling and distribution		125	
Administration		105	554
Net Profit			326

3 © Two reasons for preparing a Purchasing Budget:

- To determine the quantity of raw materials that need to be purchased for the budget period so that production is not interrupted. This linkage between planned production and raw material purchases is a particularly critical linkage in manufacturing firms
- A firm could decide how much raw materials to have in inventory at the end of each budget period.

SUGGESTED SOLUTION TO QUESTION NO.4

(4a) – Total Budgeted Sales Quantity(units) for forthcoming year:

Total fixed costs	\$1,440,000
Net Profit (given)	\$480,000
Total Contribution	\$1,920,000
Contribution per unit	\$106-\$82 =\$24
Sales Volume For Forthcoming Year	\$1,920,000/\$24=80,000 units

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(4b) Budgeted Sales Quantity for May and November

Budgeted sales for May	6,000 units
Budgeted sales for November	8,000 units
Note:	
March, June & Sept & November	8,000 units per month
Others (80,000-(4x8,000)/8)	6,000 units per month

(4c) Production Quantity(units) Budget for each of the first three months of the forthcoming year

	January	February	March
40% x next month's sales	2,400	3,200	2,400
60% x current months sales	3,600	3,600	4,800
	6,000	6,800	7,200

(4d) Direct Materials(in Kilograms & Value)

Month	Usage(kg)	50% Current Month's Usage	50% Next Month's Usage	Purchases (kg)	Cost per Kg	Purchases (\$)
January	60,000	30,000	34,000	64,000	\$4	256,000
February	68,000	34,000	36,000	70,000	\$4	280,000
March	72,000	36,000	30,000	66,000	\$4	264,000
April	60,000	30,000				

SUGGESTED SOLUTION TO QUESTION NO.5

5 (a) Computation Of Cash Budget From June to August

	Workings	June	July	August
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		\$'000	\$'000	\$'000
RECEIPTS				
Credit Sales		-	92	108
PAYMENTS				
Purchase of plant & equipment		160	-	-
Purchases of goods	W1	-	96	69
Rent & rates		-	32	-
Wages & other overheads	W2	12	24	24
		172	152	93
NET CASH FLOW		(172)	(60)	15
Opening Balance		240	68	8
Closing Balance		68	8	23

2015-2016

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Net Profit			(4)
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5(c) Budgeted Balance Sheet

Fixed Assets	Workings	\$'000	\$'000
Plant & Equipment	160-5		155
Current Asset			
Stock		96	
Debtors		124	
Prepaid rent	32 x 9/12	24	
Cash at bank		23	
		267	
Current Liabilities			
Creditors		174	
Accrued wages		12	
		186	
Net Current Asset			81
			236
Capital		240	
Profit & Loss Account		(4)	236

SUGGESTED SOLUTION TO QUESTION NO. 6

6 (a) Computation Of Current Machine Capacity:

Product A	1,800 x 4.2/14	=540 hours
Product B	2,400 x 5.6/14	=960 hours
Current machine hour capacity		1,500 hour

6 (b) Computation of Current Total Gross Profit:

	Product A	Product B	Total
Production cost (Direct material + Direct Labour + Variable + Fixed Overhead)	12	15.1	
Selling price	16	19.5	

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Gross profit per unit	4	4.4	
X Sales volume	1,800	2,400	
Current total gross profit	7,200	10,560	17,760

6 (c) Computation of Additional Gross Profit:

	Product A	Product B
Variable Production Costs (Direct Material + Direct Labour +Variable Overheads)	7.8	95
Selling price	16	19.5
Contribution per unit	8.2	10.0
/ Limiting factor		
Machine hour per unit	0.3	0.4
Contribution per machine hour	\$27.33	\$25

The additional machine hours should use to produce product A as the contribution per machine hour is higher.

Additional machine hours after re-organise

=1,500 machine hours x 10%

=150 machine hours

PART B

ANSWER TO SHORT QUESTIONS

1.	<p>Question:</p> <p>What is the principal budget factor and give 6 examples and why must it be identified (5marks)</p>
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Answer:

Principal budget factor or limiting factor or key factor is a factor which limits the volume of output of a company at a particular point in time or over a period. Examples are:

- (a) shortage of skilled labor,
- (b) lack of working capital,
- (c) inadequate/level of demand for products & services
- (d) plant /production capacity,
- (e) shortage of raw materials
- (f) government restrictions.

It should be identified at the beginning of the budgetary process otherwise whatever being budgeted for cannot be achieved as a result of the principal budget factor. This factor is an overriding planning limitation on the activities of the organization.

Question:

Give 4 criticisms of traditional budgetary control process (5marks)

Answer:

- 2.
- (a) Resistance from staff particularly those who mistook the budget as a measurement of their performance to be used against them
 - (b) The difficulties in setting the desirable levels of attainment-motivation versus discouragement, realistic versus unrealistic.
 - (c) The continuous education of staffs at all levels to accept budget as desirable aids/goals for the benefit of both employer and employee
 - (d) The getting away from familiarity to venture forth a newer, more dynamic approach. The feeling of security with what has always been even if it is has much inefficiency.

Question:

3. **Give 4 criticisms of traditional budgetary control process (5marks)**

Answer:

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- (a) It is a major and formal way in which the organization's objectives are translated into specific plans, tasks and objectives related to individual managers and supervisors. It should provide clear guidelines for current operations
- (b) The regular systematic monitoring of results compared to planning/the budget provides information upon which either to adjust current operations to bring them into line with the previous plan or to make adjustments to the plan itself where this becomes necessary
- (c) Management's time can be saved and attention directed to areas of most concern by the "exception principle" which forms the core of the budgetary control
- (d) The investigation of operations and procedures which is part of budgetary planning and the subsequent monitoring of expenditure may lead to reduced costs and greater efficiency.

Question:

Identify 3 behavioural problems associated with budgetary control (5marks)

Answer:

4.

- (a) Managers may complain that budgeting takes too much of their time
- (b) Co-operation and communication between managers might be minimal
- (c) "Slacks" may be built into expenditure estimates and thus managers may lobby for a higher budget expenditure allowances.

Question:

State 3 objectives of budgetary planning and control systems

Answer:

5.

- (a) Compel planning
- (b) Communicate ideas and plans
- (c) Establish a system of control

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Question:

Say, in a manufacturing company, state five functional budgets and suggest the Manager responsible for the preparation of each one

Answer:

6.

Functional Budgets	Manager Responsible for preparation
Sales budget	Sales manager
Production budget	Production manager
Direct material purchase budget	Purchasing manager
Direct labour budget	Personnel manager
Production overhead budget	Production manager

Question:

Describe what is meant by a system of continuous budgeting (3 marks)

7.

Answer:

A system of continuous budgeting is the rolling budget. A budget is prepared for the year ahead and at the end of the first control period, is prepared for the control period of the year ahead. This is repeated after each control period so that a budget for the year is always available.

Question:

Explain what is meant by the terms "fixed budget" and "flexible budget" (3 marks)

8.

Answer:

Fixed budgets have been prepared to a single level of activity and will remain unchanged regardless of the level of activity achieved.

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Flexible budgets in contrast are prepared for different levels of activity

Question:

State the main objective for preparing flexible budgets

9.

Answer:

The main objective for preparing flexible budgets is to avoid the accountability of uncontrollable variance namely volume variances which arise due to a wide difference between the fixed budgeted level and actual level of activity.

Question:

**Why is a capital budget expenditure budget different to most other budget?
(3 marks)**

10.

Answer:

A capital expenditure budget is different from most other budgets because it is based on long-term(more than 1 year) during which period all costs can change