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MAIN EXAMINATION

SEPTEMBER - DECEMBER 2023

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

BACHELOR OF COMMERCE

CAC 413: PERFORMANCE MEASUREMENTS AND CONTROL

DATE: DECEMBER 2023	**Duration: 2 Hours**
INSTRUCTIONS: Answer Question ONE and any other TWO Questions	

Q1.

a) Explain the advantages and disadvantages of zero-base budgeting. **(4 Marks)**

b) Briefly explain the limitations of relying on accounting-based techniques for assessing the performance of a business organization. **(6 Marks)**

c) A company has budgeted to produce 2,750 articles in 22,000 hours, with fixed overheads of Sh 88,000 and variable overheads of Sh 55,000. The company's production during the period of the budget was 2,700 articles in 21,500 working hours with fixed overheads costing Sh 90,000 and variable overheads Sh 58,000.

Required:

Calculate the following variances:

a) Overhead variance **(3 Marks)**

b) Fixed production overhead variance. **(3 Marks)**

c) Variable production overhead variance **(3 Marks)**

d) Fixed production overhead expenditure variance. **(3 Marks)**

e) Fixed production overhead volume variance. **(3 Marks)**

f) Fixed cost productivity variance. **(3 Marks)**

g) Capacity variance **(2 Marks)**

Q2.

a) Explain the importance of ratio analysis to a business enterprise. **(5 Marks)**

b) Explain any three balance score card perspectives and possible performance measurement indicator. **(4 Marks)**

c) Section management is allowed to run their part of the business almost as though it were their own company. Explain any five merits of divisionalization. **(5 Marks)**

d) Summarize the sequence used in the compilation of the annual budget in a manufacturing company. **(6 Marks)**

Q3.

a) In the context of budgetary control explain the main functions and importance of a cash budget. **(5 Marks)**

b) You are in charge of making forecasts and preparing budgets. You have been supplied with cost and revenue forecasts and details of payment as follows:

1. Forecast of revenue and costs for the quarter ending 31 March 2001

	January	**February**	**March**
	Shs.	**Shs.**	**Shs.**
Direct			
Materials (purchases)	112,000	100,000	135,000
Wages	90,000	80,000	100,000
Overhead			
Production	34,000	32,000	40,000
Administration	22,000	20,000	27,000
Selling and distribution	13,000	11,000	18,000
Sales	360,000	350,000	440,000

2. Forecast of revenue and costs for the quarter ending 30 June 2001

	April	May	June
	Sh.	Sh.	Sh.
Direct			
Materials (purchases)	90,000	67,000	79,000
Wages	72,000	54,000	63,000
Overhead			
Production	45,000	36,000	40,000
Administration	22,000	25,000	27,000
Selling and distribution	13,000	11,000	16,000
Sales	350,000	360,000	360,000

Cash balance on 1 April 2001 Sh. 90,000

1. Other details

- Period of credit allowed by suppliers averages two months.
- Debenture to the value of Shs. 125,000 are being issued in May 2001 and the amount is expected to be received during the month.
- A new machine is being installed at the end of March 2001 at a cost of Sh 150,000 and payment is promised in early May 2001.
- Sales commission of 3% is payable within one month of sales.
- A dividend of Sh 100000 is to be paid in June 2001.
- There is a delay of one month in the payment of overheads. There is also a delay in payment of wages averaging a quarter of a month.
- Twenty per cent of the debtors pay cash, receiving a cash discount of 4% and 70% of debtors pay within one month and receive a cash discount of 2 ½%. The other debtors pay within two months.

Required:

A cash budget on a monthly basis from the second quarter of the year 2001. **(15 Marks)**

Q4.

Rafiki Hardware Tools Company Limited sells plumbing fixtures on terms of 2/10 net 30. Its financial statements for the last three years are as follows:

	1998	**1999**	**2000**
	Sh.'000'	**Sh.'000'**	**Sh.'000'**
Cash	30,000	20,000	5,000
Accounts receivable	200,000	260,000	290,000
Inventory	400,000	480,000	600,000
Net fixed assets	800,000	800,000	800,000
	1,430,000	1,560,000	1,695,000
Accounts payable	230,000	300,000	380,000
Accruals	200,000	210,000	225,000
Bank loan, short term	100,000	100,000	140,000
Long term debt	300,000	300,000	300,000
Common stock	100,000	100,000	100,000

Retained earnings	500,000	550,000	550,000
	1,430,000	1,560,000	1,695,000

Additional information:

Sales	4,000,000	4,300,000	3,800,000
Cost of goods sold	3,200,000	3,600,000	3,300,000
Net profit	300,000	200,000	100,000

Required:

(a) For each of the three years, calculate the following ratios:

Acid test ratio, Average collection period, inventory turnover, Total debt/equity, Net profit margin and return on assets.

(12 Marks)

(b) From the ratios calculated above, comment on the liquidity, profitability and gearing positions of the company.

(8 Marks)

END