NATIONAL UNIVERSITY OF LESOTHO
INSTITUTE OF EXTRA MURAL STUDIES
DEGREE IN ADULT EDUCATION
2022/2023

FINAL EXAMINATION PAPER

ADE 3305: BUDGETING AND FINANCING OF ADULT EDUCATION

JANUARY 2023 **60 MARKS** **3 HOURS**

INSTRUCTIONS

- This Question paper is divided into **TWO** (2) Sections
- Answer **QUESTION ONE** (1) in Section A
- Answer **ONLY TWO (2) QUESTIONS** in Section B**.**
- Write legibly and proof read your work
- Begin each question on a new page
- Number your responses carefully
- Each question carries 20 marks

SECTION A

QUESTION ONE

a) Define Trial Balance and explain why is important for the accounts clerk to ensure that the trial balance agree (the totals are equal) before preparing the Financial statements. (6 marks)

b) Why is accounting an important part of finance management? (4 marks)

c) What is the purpose of Budgetary Control? (5 marks)

d) Explain the following terms:

i. Variance (2 marks)

ii. Flexible budget (2 marks)

e) What is financial ratio Analysis? (1 mark)

[20 marks]

SECTION B

Answer only **TWO (2)** questions in this Section.

QUESTION 2

A Small and Medium Business Development Unit (SMBU), a parastatal organisation charged with the development and support of small and medium businesses, is preparing its cash budge for six months to June 2023.

a) Expected income from course and consultancy fees:

December	60 000
January	40 000
February	40 000
March	50 000
April	60 000
May	80 000
June	140 000

b) 90% of the fees are collected within the month of service and 10% in the month following the month of service.

c) Purchases costs (course materials, etc.) in Maloti are projected as follows:

December	30 000
January	30 000
February	25 000
March	30 000
April	50 000
May	80 000
June	20 000

These costs are paid for one month in arrears:

d) Administrative expenses are expected to be M15 000 per month.

e) Equipment purchases of M25 000 will be made in April and September.

f) The cash on hand at the beginning of January is expected to be M28 000.

g) Any cash shortfall is claimed from government.

Required:

Cash budget for the Unit for the months of January to June 2023. **[20 Marks]**

QUESTION 3

As a supervising officer, you are presented with the following report. Make necessary adjustments and prepare Flexible Budget.

	Budget (M)	Actual (M)	Variances
REVENUE	44 000	40 000	4 000 U
OPERATING EXPENSES			
Variable:			
Material	6 600	6 200	400 F
Labour	4 400	4 200	200 F
Administration	2 200	2 000	200 F
Selling	4 400	4 400	-----
TOTAL	**17 600**	**16 800**	**800 F**
Fixed:			
Rent	3 000	2 500	500 F
Insurance	800	900	100 U
Supervisory salaries	6 000	5 800	200 U
Office Salaries	8 000	8 400	400 U
Other	2 200	2 000	200 F
TOTAL	**20 000**	**19 600**	**400 F**
NET INCOME	6 400	3 600	2 800 U

[20 Marks]

QUESTION 4

a). Explain the following methods of evaluating Capital Expenditure projects

i). Payback period method

ii). Average Rate of Return Method

iii). Discounted Cash flows Method

(10 marks)

Machache Wine Farmers' Association planned to buy a distillery machine. The Association obtained information in respect of two projects, one of which it intends choosing. The following details are available:

	Project A	**Project B**
Cash outlay(Initial Investment)	M600 000	M600 000
Economic lifetime	6 years	4 years
Average annual net cash inflows over the economic lifetime	M200 000	M280 000
Depreciation(Straight-line method)	M100 000	M150 000

Required:

b) Calculate the payback period of each project and recommend the project that should be chosen based on payback period (PBP) Method. (5 marks)

c) Calculate an Average rate of Return of each project and recommend the project that should be chosen based on ARR method. (5 marks)

[20 Marks]

APPENDIX A - USEFUL FORMULAS

A.1 FINANCIAL RATIO ANALYSIS

A.1.1 LIQUIDITY

a. Current Ratio = $\frac{Current\ Assets}{Current\ Liabilities}$

b. Quick Ratio = $\frac{Current\ Assets - Stock}{Current\ Liabilities}$

A.1.2 SOLVENCY

c. Debt Ratio = $\frac{Total\ Liabilities}{Total\ Assets}\ x\ 100\%$

d. Debt-to-Equity Ratio = $\frac{Total\ Liabilities}{Equity(Capital\ Fund}\ x\ 100\%$

A.1.3 EFFICIENCY(ACTIVITY)

e. Stock Turnover Ratio = $\frac{Sales}{Average\ Stock}$

f. Fixed Assets Turnover = $\frac{Sales}{Fixed\ Assets}$

A.1.4 PROFITABILITY

g. Net Profit Margin = $\frac{Net\ income}{Sales}$ x 100%

h. Return on Assets = $\frac{Net\ Income}{Total\ Assets}$ x 100%

i. Return on Equity = $\frac{Net\ Income}{Equity}$ x 100 %

A.2 BREAK-EVEN ANALYSIS

A.2.1 Profit (Surplus) model

S = I – E

Where;

S, stands for Surplus;

I, for Income;

E, for Expenditure.

A.2.2. Break-even Relationships (general Model)

S = [p – v]Q – F + D

Where,

S, stands for Surplus.

p, for price,

Q, for quantity (activity level),

v, for variable cost per unit,

F, for fixed costs, and

D, for donations.

A.2.3 Break-even Quantity

$$Q = \frac{F-D}{p-v}$$

A.2.4 Quantity Yielding a Target Surplus

$$Q = \frac{S+F-D}{p-v}$$

A.2.5 Price Yielding a Target Surplus

$$p = \frac{S+F-D}{Q} + v$$

A.2.6 Donation Yielding a Target Surplus

D = F + S - [p – v]Q

A.3 CAPITAL EXPENDITURE ANALYSIS

A.3.1 Future Values

$FV = PV (1+r)^n$

Where:

FV stands for Future value;
PV, for present value,
r, for interest rates, and
n, for number of periods.

A.3.2 Present Values

$PV = FV \frac{1}{(1+r)n}$

Where:

FV stands for Future value;
PV, for present value,
r, for interest rates, and
n, for number of periods.