KABARAK UNIVERSITY

UNIVERSITY EXAMINATIONS
2009/2010 ACADEMIC YEAR

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT AND INFORMATION TECHNOLOGY

COURSE CODE: **BMIT 312**

COURSE TITLE: **MANAGEMENT ACCOUNTING**

STREAM: **Y3S1**

DAY: **TUESDAY**

TIME: **2:00 – 5:00 P.M.**

DATE: **16/03/2010**

INSTRUCTIONS:

1. Answer question ONE and ANY OTHER THREE questions.

PLEASE TURNOVER

QUESTION 1

a) Explain the techniques and methods employed by a Management Accounting in his core business of assisting the Management in making prudent and informed decision. (6 marks)

b) Outline the principles applicable under marginal costing in making a decision on dropping a product from the production list. (4 marks)

c) Job order number 27, for 200 specially printed cards has to pass through four different machines of which the machines hour rates are as follows:-

Machine 1 – Shs 12.50
Machine 2 – Shs25.00
Machine 3 – Shs 30.00
Machine 4 – Shs22.50

The following expenses have been incurred on the job order:-

Materials	Shs8,000
Wages	Shs500

The machines have been engaged as follows:-

Machine 1 for 20 hours
Machine 2 for 16 hours
Machine 3 for 24 hours
Machine 4 for 13 hours

After the job order was completed, material worth Shs 400 are found to be in excess and were returned to stores. Office overheads used to be 40% of factory cost, but on account of all –round increase in the cost of administration, distribution and sales, there has been a 50% increase in the office overhead expenses. Moreover, it is known that 10% of the production will have to be scrapped for not being up to the specifications and the sale proceeds of the scrapped output will be 5% of the cost of sales.

REQUIRED:

(i) Job Order Cost Sheet if the manufacturer wants to make a profit of 20% on the selling price.

(ii) Selling price per card ready for sale. (15 marks)

d) Joy Ltd Company manufactures a commodity whose information for the last two successive years sis as under:

	2007 Shs	2008 Shs
Sales	300,000	360,000
Fixed Cost	90,000	120,000
Variable Cost	150,000	195,000

Required:

(i) P/V Ratio
(ii) Break Even Point (in Shs)
(iii) Margin of safety. **(15** marks**)**

QUESTION 2

a) The following relates to X Ltd Company.

	Actual (Shs)			**Budgeted (Shs)**		
	January	February	March	April	May	June
Sales	80,000	100,000	140,000	150,000	110,000	100,000
Purchases	40,000	30,000	25,000	30,000	25,000	20,000
Wages	20,000	20,000	10,000	15,000	10,000	10,000
Expenses	5,000	6,000	5,000	8,000	6,000	4,000

Additional information:

1. 25% of sale are in cash.
2. 60% of the credit sales are collected in the month following the sale, 25% in the second following month and 14% in the third following month. 1% of credit sales is lost as bad debts.
3. 60% of the purchases are for cash while the credit purchases are paid the month following the purchase.
4. Wages are paid on time lag of ¼ month and expenses after one month.
5. Rent amounting to Shs2,000 per month was not included in the expenses.
6. Insurance premium payable in May is estimated to be Shs2,500.
7. Cash balance on the beginning of April is estimated to be Shs.15,000

Required:

Cash Budget for the Budgeted period (April to June) (10 marks)

b) X Construction company undertook a contract for road construction in 2009. The contract price was agreed at Shs10,000,000 and it estimated cost of completion would be Shs9,200,000.

At the end of the year 2009, the company had received Shs3,600,000 representing 90% of work certified. Work not certified amounted to shs100,000.

Expenditure incurred on the contract during the year 2009 was as followed:

Material (Shs)	500,000
Labour (Shs)	3,000,000
Plant (Shs)	200,000

Material costing Shs 50,000 were damaged and had to be disposed off for Shs 10,000. Plant is considered as having depreciated by 25%

Required:
Contract Account for the year 2009. (10 marks)

QUESTIION 3

a) Discuss the elements of cost showing examples of each of its classes and sub-classes. (10 marks)
b) Xerox Ltd company produces three products whose budget production cost and selling price per unit is giving below:-

	Product		
	X	Y	Z
Materials (Shs)	18	26	30
Wages (Shs)	7	9	10
Variable Overheads (Shs)	2	3	3
Fixed Overheads (Shs)	5	8	9
Total Costs (Shs)	32	46	52

Selling price (Shs)	40	60	61
Net Profit (Shs)	8	14	9
Product (Units)	4,000	2,000	5,000

The product Manager wants to discontinue production of one product and guarantees that production of other two products shall rise by 50%. He wants to discontinue production of product X, as it is least profitable.

Using Marginal costing as a decision making technique:-

(a) Do you agree to the scheme in principle?
(b) Do you think that product X is the one which needs to be discontinued? (10 marks)

QUESTION 4

a) Inter-link Ltd Company uses employee of the different grades and material A and B in producing product z. The following information relate to a manufacturing process of product Z during the past one week:

Standard labour cost per unit of product Z:

Grade I – 5 hours @ Shs 1 per hour
Grade II – 8 hours @ Shs 0.50 per hour
Grade III-10 hours @Shs0.40 per hour

For the 500 Units of product Z produced during the week, the following wages payments were made:

Grade – 2,400 hours Shs 2,640
Grade II – 6,000 hours Shs 2,700 (1,000 Idle hours)
Grade III – 7,000 Hours Shs 2,940 (500 hour)

Standard quality and price of raw materials:

Material A 700 units @ shs 2 per unit
Material B 300 units @ Shs 3 per unit

Actual quantity and price of raw material used:

Material A 800 units @ Shs 3 per unit
Material B 400 units @ Shs 5 per unit

Required:

Analysis of: i) Material Cost Variance
ii) Labour cost Variance. (10 marks)

b) M. Steel Ltd produces articles of steel metal for domestic and office use. Its factory has Maintenance Department, Building Service Department and Power Department as service departments. Cutting Department and Assembly Department are its production departments.
Overhead expenses incurred and other particulars related to production in the month of December 2009 as below:

	Amount of expenditure (Shs)	Amount of direct labour(Shs)	Hours worked (Hrs)	Floor Space (sq.ft)	Power consumed (k.w.h)
Maintenance Department	9,600	-	-	-	-
Building Service Department	12,000	-	1,000	-	-
Power Department	4,000	-	400	2,000	-
Cutting Department	16,000	14,660	1,600	4,000	360,000
Assembly Department	8,000	13,520	1,800	8,000	40,000

The service department' costs are distributed to other service department and production department in the order shown above. The basis of distribution of these costs is a follows:-

		Basis of distribution
Overheads expenses of:	- Maintenance Department	-In the proportion to the hours worked in other departments
	Building Service Department	-On the basis of floor space
	Power Department	- On the basis of power consumption

Required:
Schedule of overheads allocation and apportionment of the Service Departments overheads to the Production Department. (10 marks)

QUESTION 5

a) Auto ltd company is motorbike manufacturing company. The company purchases 2,700 steel parts annually at shs 100 per part for motorbike assembly. The cost of placing an order is shs200 while storing and carrying cost of the steel parts is 12% of the cost each steel part.

The minimum usage of the steel parts is 25 parts per week and the maximum usage is 75 parts per week. It takes 4 to 6 weeks for supplier to supply the Company with orders of these steel parts.

Required:

(i) Economic Order Quality
(ii) Number of orders per year
(iii)Minimum stock Level
(iv)Re-order stock level
(v) Maximum stock level. (10 mark)

b) X Ltd produces plactic product which passes through three processes I, II and III for it to be ready or sale as finished goods. The normal wastage of each process is as follows:-

Process I - 1½of actual output
Process II - 2½of actual output
Process III – 4% of actual output

Normal wastage of process I was sold at shs2.50 per unit, that Process II at Shs5.00 and that of process III at Shs10.00 per unit. 20,000 units were issued to process I as opening stock at the cost of shs10.00 per unit.

The other expenses were as follows:-

	Process I	Process II	Process III
	Shs	Shs	Shs
Materials	20,000	30,000	10,000
Labour	100,000	160,000	130,000
Direct expenses	21,000	23,760	40,180

Actual output:-

Process I – 19,000 units
Process II – 18,200 Units
Process III – 16,200 Units

Required:
Process Accounts assuming that there were no closing stocks. (10 marks)