

KABARAK



UNIVERSITY

EXAMINATIONS

2008/2009 ACADEMIC YEAR

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: ACCT 323

COURSE TITLE: MANAGERIAL ACCOUNTING

STREAM: Y3S2

DAY: THURSDAY

TIME: 11.00 – 1.00 P.M.

DATE: 11/12/2008

INSTRUCTIONS:

This paper contains four questions.

Answer question ONE and any other TWO questions.

Marks allocated are shown at the end of every question.

Show all necessary workings.

PLEASE TURN OVER

QUESTION ONE (30 marks)

- a) Explain the **five** limitations of financial accounting information that makes managerial accounting information better. **(10 marks)**
- b) Decision making process depends on the environment that an entity operates in. Describe **four** decision making environments clearly. **(8 marks)**
- c) Explain **four** types of budgets clearly stating the conditions under which each is applicable. **(8 marks)**
- d) What is balanced score card. Explain how it is used in divisional performance evaluation. **(4 marks)**

QUESTION TWO

XYZ Ltd. is trying to decide on whether or not to drill oil at the Kenya Coastal region. The chief engineer has assessed the probability that there would be oil based on past experience as follows.

Probability (oil) = 0.2
Probability (no oil) = 0.8

It is possible for the firm to hire a consultant to carry out a complete survey of the site. XYZ has used the consultant many times before and has made the following estimates.

- a) If there is oil, then there is 95% chance that the report will be favourable
- b) If there is no oil, then there is 10% chance that the report will be favourable.

The cost of drilling is £ 10 million and the value of the benefit is £70 million. The cost of obtaining information from the consultant is £ 3 million.

Required:

Draw a decision tree to illustrate the decisions affecting the company and advise the company on the best decision. **(20 marks)**

QUESTION THREE (20 marks)

Tiger Ltd. has budgeted for the forthcoming period as follows based on production and sale of 600 units.

	£
Materials	18,000
Labor	15,000
Variable overheads	12,000
Fixed overheads	14,000
Selling cost	9,000

The selling cost at the budgeted level of production is 50% variable and each unit of production sells for £ 180 each. After examining the figures, various suggestions are made.

1. The production director suggests that the company could manufacture 800 units in the period but labour cost would increase for all units by 40%.
2. The sales director believes that in order to sell 800 units, the selling price will need to be reduced to £ 170 per unit and extra sales staff would need to be employed at a fixed cost of £ 3,000 in total for the period.
3. He also suggests that if the selling price was to increase to £ 200, only 450 units would be sold without the need for extra sales staff but with a loss of material discounts which will increase the materials cost by 10%

Required:

- a) Prepare profit calculations at sales of
 - i) 450 units
 - ii) 600 units
 - iii) 800 units, in accordance with the above suggestions. **(10 marks)**
- b) BEP for each alternative above. **(5 marks)**
- c) Advise the management to the best possible direction, highlighting any reservation that you may have concerning the director's suggestions. **(5 marks)**

QUESTION FOUR

ABC Ltd. uses two processes; Forming department in process A and finishing department in process B. Direct materials is introduced at the beginning of the process in department A and an additional direct material is added at the beginning of the process in department B. Conversion cost are applied evenly throughout the whole process. As goods are completed in process A, they are transferred to process B. And when completed in process B they are transferred to finished goods inventory. Data of department A in the last period is given below;

WIP (40% complete)	10000 units
Made up of:	Shs.
Direct materials	4000
Conversion Cost	<u>1110</u>
	<u>5110</u>

Units completed and transferred	48000
Units started during the period	40000
WIP ending inventory (50%)	2000

Current costs;

Direct material	22000
Direct labour	6000
Factory O/H	<u>12000</u>
	<u>40000</u>

Required:

Compute the cost of goods transferred out in cost of WIP using the weighted average method. **(20 Marks)**