



# KENYA METHODIST UNIVERSITY

## END OF SECOND TRIMESTER 2009 EXAMINATIONS

**FACULTY** : **BUSINESS STUDIES AND MANAGEMENT**  
**DEPARTMENT** : **BUSINESS ADMINISTRATION**  
**COURSE CODE** : **BUSS 219**  
**COURSE TITLE** : **MANAGERIAL ACCOUNTING**  
**TIME** : **2 HOURS**

---

### INSTRUCTIONS

- *ANSWER ALL QUESTIONS*
- *BE NEAT, PRECISE, AND CLEAR IN YOUR WORKINGS*
- *MARKS ARE SHOWN AGAINST EACH QUESTION*
- *SHOW ALL YOUR WORKINGS*

### QUESTION ONE

- a) Briefly explain the role of the accounting staff in the budgeting process. **(4Marks)**  
b) A sales budget is given below for one of the products manufactured by Naka Co. Ltd for the six months ended 30 June 2008.

#### Sales Budget

Month	Units
January	60,000
February	105,000
March	180,000
April	120,000
May	90,000
June	75,000

The inventory of finished goods at the end of each month must equal 20% of the next month's sales. On 1 January 2008, the finished goods inventory was 12,000 units. Each unit of production requires nine (9) units of a specialized liquid extract known as HN2. Sometimes this extract is in short supply and for this reason, the company has a policy of maintaining an inventory at the end of each month equal to 30% of the next month's production needs. This requirement was met as at 1 January 2008.

Required:

- i) Prepare a budget showing the quantity of HN2 to be purchased each month for the months of January, February and March 2008 and in total for the three-month period. **(15Marks)**  
ii) What is the significance of budgeting in any business organization? **(6Marks)**  
**(Total 25 Marks)**

## QUESTION TWO

- a) Describe the distinguishing characteristics of production systems where:
- i) Job-order costing techniques would be used **(2Marks)**
  - ii) Process costing techniques would be used **(2Marks)**
- b) Gachanka Co. Ltd operates a process and for the period ending 31 March 2009, the following production information is available.
- There was no opening work-in-process inventory
  - During the period 41,250 units were received from the previous process at a value of Shs 2,268,750, labour and overheads costs were Shs 1,750,300 and material introduced was Shs 123,750.
  - At the end of the period, the closing work-in-process was 8,000 units, which were 100% complete in respect of materials and 60% complete in respect of labour and overheads. The balances of units were transferred to finished goods.

Required:

- i) Calculate the number of equivalent units produced. **(8Marks)**
  - ii) Calculate the cost per equivalent unit. **(2Marks)**
- c) Briefly, discuss the alternatives in disposing over-applied or under-applied manufacturing overheads **(5Marks)**
- d) Distinguish between joint products and by-products. **(6Marks)**

**(Total 25 Marks)**

## QUESTION THREE

Gakumbo Enterprises Co. Ltd had the following actual data for the year 2007 and 2008 regarding its finished goods.

	<u>2007</u>	<u>2008</u>
Opening inventory	Nil	6,000
Production	26,000	20,000
Sales	20,000	22,000
Ending inventory	6,000	4,000

Additional information:

- i) The basic production data at standard costs for the two years were:
- |                             |               |
|-----------------------------|---------------|
| Direct materials            | Shs 40        |
| Direct labour               | Shs 32        |
| Variable factory overhead   | <u>Shs 6</u>  |
| Standard variable cost/unit | <u>Shs 78</u> |

- ii) Fixed manufacturing overheads were budgeted at Shs 192,000 at a normal production volume of 12,000 units.
- iii) Budgeted selling price was Shs 140 per unit.
- iv) Selling & administrative expenses were budgeted at Shs 14 per unit sold while fixed costs were 160,000 per year.
- v) There were absolutely no variances from any standard variable costs or budgeted selling prices or budgeted fixed costs in the two years.
- vi) There was no beginning or ending inventories of work-in-process.

Required:

- a) Prepare an income statement for both the years 2007 and 2008 under:
  - i) Variable costing method **(7Marks)**
  - ii) Absorption costing method **(8Marks)**
- b) Prepare a reconciliation statement between the variable costing and absorption costing net income figures **(5Marks)**
- c) Briefly discuss the benefits of using variable costing as the basis of management reporting. **(5Marks)**

**(Total 25 Marks)**

#### QUESTION FOUR

- a) **Identify** and **criticise** any five underlying assumptions of the cost-volume-profit analysis. **(5Marks)**
- b) Nuru Gizani Co. Ltd manufactures and sells a single product. The company's sales and expenses for the month of January 2008 were as follows:

	Total (Shs)	per unit (Shs)
Sales	1,200,000	80
Less: Variable expenses	<u>840,000</u>	<u>56</u>
Contribution Margin	360,000	<u>24</u>
Fixed expenses	<u>300,000</u>	
Net Income	<u>60,000</u>	

Required:

- i) What is the break-even point in units and sales shillings **( 4Marks)**
- ii) Compute the company's Margin of safety in both shillings and percentage terms **(3Marks)**
- iii) How many units would have to be sold each month to earn a minimum target income of Shs 36,000? Prove your answer by preparing a Contribution Margin Income statement, at the target level of sales. **(8Marks)**
- iv) If the monthly sales increase by Shs 160,000, by how much would you expect monthly net income to increase? **(4Marks)**
- v) Define what is contribution margin ratio? **(1Mark)**

**(Total 25 Marks)**