CHUKA UNIVERSITY COLLEGE

UNIVERSITY EXAMINATIONS

EMBU CAMPUS

SECOND YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 210: MANAGEMENT ACCOUNTING I

STREAMS: BCOM Y2S1 **TIME: 2 HOURS**

DAY/DATE: FRIDAY 3/8/2012 **2.30 P.M. - 4.30 P.M.**

INSTRUCTIONS:

- Answer question ONE and any other two questions.
- Do not write on the question paper.

QUESTION ONE:

(a) Differentiate between the following terminologies as used in Management Accounting.

(i) Relevant cost and irrelevant cost [3 marks]

(ii) Cost centre and cost unit [3 marks]

(iii) Semi-fixed and semi-variable costs [3 marks]

(iv) Period costs and product costs [3 marks]

(b) State the assumptions that underlie the break even theory. [4 marks]

(c) Jamii Company Ltd manufactures and sells a single product. The following information regarding the company's operations for the year ended 30 September 2001 was presented to you.

Profit and Loss account for the year ended 30 Sept. 2001

	Sh '000'	Sh '000'
Sales		30,000
Less: Production costs:		
Direct material	6,500	
Direct labour	5,400	
Production overhead (variable)	7,000	
PRIME COST		18,900
		11,100
Other expenses:		
Selling-variable	2,600	
- Fixed	1,997	
Administration	2,100	6,697
Net profit		4,403
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The following changes are expected to occur during the year ended 30 September 2002.

1. Selling price will be adjusted downwards by 5% in order to attract more customers.
2. Material prices will rise by 2% due to inflation.
3 There will be a reduction in labour cost of 4%.
4 Production overhead will increase by 3%.
5 Increase in the efficiency of sales person will reduce direct selling cost by 5%.

All other factors are expected to remain constant.

Required:

(i) Break-even point in sales value. [4 marks]
(ii) The margin of safety in sales value. [2 marks]
(iii) The sales value at which profit of Sh.4.5 million will be achieved. [2 marks]
(iv) A summary operating statement that show the net profit of Sh.4.5 million in (iii) above. [6 marks]

QUESTION TWO:

(a) Kikwetu Enterprises is a firm operating in textile industry.

The budgeted sales for fabric "M" for the month of August 2006 are 20,000 units at a selling price of Sh.4000 per unit.

Additional information:

1. For the production of one unit of output of fabric "M", the following two components of inputs are used.

Component	Number of Units	Cost per Component Sh.
A	10	40
B	6	20

2. Stocks at the beginning of August 2006 are budgeted as:

   - 8,000 units of finished product at Sh.2,100 per unit
   - Components: A – 32,000 units at Sh.40 per unit
B – 19,200 units at Sh.20 per unit

3. Production of each unit of fabric "M" requires the following labour hours:

Department	Hours per Unit	Labour rate per hour (Sh)
Production	8	200
Finishing	4	180

4. Factory overheads are absorbed into unit cost on the basis of direct labour hours. The budgeted factory overheads for the month are given as Sh.3,840,000.

5. The administration, selling and distribution overheads for the month are budgeted at Sh.11,000,000.

6. The company plans a reduction of 50% in quantity of finished stock at the end of the month and a decrease of 25% in the quantity of each input component.

<u>Required:</u>

For the month of August 2006:

(i) Production quantity budget [3 marks]
(ii) Material usage budget [3 marks]
(iii) Material purchase budget [3 marks]
(iv) Direct labour cost budget [3 marks]
(v) A budgeted profit and loss account [6 marks]

(b) State any two limitations of budgeting. [2 marks]

QUESTION THREE:

(a) Why is marginal costing more suitable for managerial decision making? [4 marks]

(b) XYZ Ltd manufactures product “M”. The standard cost of producing one unit of product M is given below.

Direct labour Sh.15
Direct material Sh.24
Variable production overhead Sh.6
Fixed production overhead Sh.15
Standard selling price per unit Sh.205

Additional information:

- Fixed production overhead is based on activity level of 12000 units p.a.
- All fixed costs accrued evenly throughout the year.
- Annual non-production costs consists of:

Fixed cost Sh.36,000
Variable cost 15% of annual sales

The units produced and sold in the two quarters ended 30th September 2007 and 31 Dec. 2007 were as follows:

	Quarter Ended 30th September 2007	31 December 2007
Units produced	2000	3200
Units sold	1500	3000

Required:

(i) Profit and loss statement for each quarter under both variable costing and full costing. [12 marks]

(ii) Reconcile the profits for each quarter. [4 marks]

QUESTION FOUR:

(a) XYZ Enterprises is a medium size firm producing frying pans for domestic use. The firm is currently operating at full capacity producing 100,000 frying pans per annum. Each frying pan is sold at Sh.200.

On average, the firm realizes a net profit of Sh.4,000,000 per annum. As analysed below:

Operating Statement per annum

	Sh.	Sh.
Sales: (100,000 x 200)		20,000,000
Less: Marginal cost		
Labour	8,000,000	
Material	5,000,000	(13,000,000)
Contribution		7,000,000
Fixed costs		[3,000,000]
Net Profit		4,000,000
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An opportunity has arisen for the firm to supply an additional 30,000 frying pans per annum at Sh.180 each as a special order. If the firm accepts this order, it would incur the following costs:

1. Additional fixed costs amounting to Sh.800,000 per annum for the hire of additional machinery.
2. An overtime premium of 20% would be paid for the extra direct labour required in addition to the normal labour charges.

Required:

(i) Should the firm accept the special order? Justify your answer. [5 marks]

(ii) State other factors that the firm should consider before it accepts or rejects the special order. [2 marks]

(b) The information given below relates to Wasp Ltd which manufactures a single type of chemical. Overhead processing cost for the last thirteen accounting months have been given as follows:

Period	Overhead Cost Sh "000"	Output "000" tonnes
1	770	120

2	820	150
3	810	160
4	830	170
5	960	200
6	900	170
7	940	200
8	950	200
9	940	180
10	870	160
11	800	140
12	820	150
13	790	140

Required:

Using regression analysis, devise a formular to assist in predicting the overhead budget for the thirteen months. [13 marks]
