



**CHUKA UNIVERSITY**

**COLLEGE  
UNIVERSITY EXAMINATIONS**

**THIRD YEAR EXAMINATION FOR THE AWARD OF DEGREE OF  
BACHELOR OF EDUCATION (ARTS)**

**BUST 311: MANAGEMENT ACCOUNTING**

**STREAM: B.ED (ARTS) Y3**

**TIME: 2 HOURS**

**DAY/DATE: WEDNESDAY 2/9/09**

**2.30P.M. - 4.30 P.M.**

**INSTRUCTIONS:**

ANSWER QUESTION ONE ANDY OTHER TWO.

Q.1 (a) A manufacturing company produces a product with a composition of 3 materials. Data relating to the material is given below:

Material	Standard quantity	Actual quantity
A	500kg at Sh.6.00	400kg at Sh.6.00
B	400kg at Sh.3.75	500kg at Sh.3.60
C	300kg at Sh.3.00	400kg at Sh.2.80

Required:

Calculate the various material cost variances. (12 marks)

(b) You are given the following data for ABC Company for a single unit.

	Shs.
Selling price	10
Direct materials	3
Direct wages	2
Variable overheads	1
Fixed overheads	2

You are further given that production is 6,000 units and sales are 4,800 units. Prepare an operating statement for ABC company on:

- (i) Marginal costing
- (ii) Absorption costing (10 marks)

- (c) What are the arguments for using Marginal costing and for Absorption costing? (10 marks)

Q.2 (a) ABC Ltd operates a manufacturing plant for soft drinks, which go through the following three processes:-

- A - Mixing
- B - Bottling
- C - Packaging

After drinks are mixed they are passed to bottling stage and then packaging for the sale.

The following data was collected for the month of January for Bottling process.

- (i) Opening work in progress 400 units (50% complete) valued at KSh.2,500.
- (ii) Closing work in process 250 units (40% complete).
- (iii) 750 units were transferred to packaging process.
- (iv) 600 units transferred from mixing process were valued at Ksh.4,300.
- (v) The cost for the month were KSh.16,580 and no units were scrapped.

Required:

Prepare the process accounts for bottling process using:

- (i) FIFO method of valuation
- (ii) Average cost method of valuation (12 marks)

- (b) Distinguish normal process losses from abnormal process losses. (4 marks)
- (c) Distinguish relevant cost from irrelevant costs. (4 marks)

Q.3 (a) ABC Ltd has been manufacturing and selling products in Nairobi. The Market demand for the products on average has been as follows:

Product	C	B	Z
Annual demand in units	20,000	25,000	43,000

The manufacturer of the product requires time on a machine as follows:

Product	C	B	Z
Time/unit	30 minutes	45 minutes	20 minutes

The following details are available for a unit of each of the products.

	C	B	Z
Direct materials	15	12	14
Direct labour	25	20	14
Variable overheads	7	5	8
Selling price	60	48	50

The Company can only manage to get a maximum of 30,000 hours on the machine per year.

Required:

- (i) Advice the management on the most profitable product mix.  
(ii) Suppose Company has a contracted obligation to produce 6,000 units of each product, what would be the optimal production mix? (10 marks)
- (b) With the help of well labeled diagram, describe the difference between the economic and accountants models of Cost-Volume-Profit analysis. (10 marks)

Q.4 (a) Explain the following terms used in management accounting:

- (i) Cost objects
- (ii) Period costs
- (iii) Conversion costs
- (iv) Sunk costs
- (v) Product costs (10 marks)

(b) Company XY specializes in the distribution of computer programs for microcomputers. The accounting department has gathered the following data on development of 1,000 units.

	<u>KSh.</u>
Development costs (Fixed)	10,000
Total Variable costs	30,000

Sales revenue are expected to be KSh.50,000 P.A.

Determine the following:

- (i) Break even sales revenue (2 marks)
  - (ii) Profit when sales are KSh. 400,000 (2 marks)
  - (iii) Sales revenue required for profit of Sh. 500,000 (2 marks)
  - (iv) The margin of safety (2 marks)
  - (v) Profit if variable cost incurred is Sh. 300,000 (2 marks)
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