THE MOMBASA POLYTECHNIC UNIVERSITY COLLEGE

Faculty of Business & Social Studies

DEPARTMENT OF BUSINESS STUDIES

BACHELOR OF BUSINESS ADMINISTRATION

HBC 2213: MANAGEMENT ACCOUNTING

END OF SEMESTER EXAMS

SERIES: APRIL/MAY 2010.

TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES

1. The paper consists of **FIVE** questions.
2. Answer Question **1** and any other **TWO** questions.

Q.1 (a) Management Accounting provides vital information for management at all levels of economic unit. Briefly explain how the management uses this information. (8 marks)

(b) Briefly explain any **FIVE** differences between Management and Financial Accounting. (10 marks)

(c) The following data have been collected on costs and output of Kojos Manufacturers.

Output (000s)	1	2	3	4	5	6	7
Cost (000s)	14	17	15	23	18	22	31

Using the Regression analysis, estimate the cost if they want to operate at 10,000 units. (6 marks)

(d) A company makes a product which it sells in the Local market. The data relating to this product is as follows:

	Shs.
Selling Price	100/=
Raw materials	4 Kgs
Labour	2 hours

Raw Materials are purchase at 5/= per Kg and labour is paid at 20/= per hour. The company has estimated its fixed cost at 60,000/=.

Required:

(i) Calculate breakeven point in units. (3 marks)
(ii) Calculate the quantity to be sold so as to realize a profit of 230,000/=. (3 marks)

Q.2 Los Ltd. a manufacturing company currently makes two products, Sima and Tamu. The standards per unit of product are as follows:

	Products			
	SIMA		**TAMU**	
	Shs.		**Shs.**	
Selling Price		380		420
Materials at shs.10	80		40	
Labour at shs.20	120		160	
Variable overhead at 10/=	40		60	
		240		260
		140		160

During the next accounting period, the company expects a maximum of 3280 hours:

The Marketing manager estimates that the maximum sales potential for product Sima is limited to 420 units.

Required:

(i) Determine the product mix that will maximize the profit. (16 marks)
(ii) Calculate the maximum profit that results from (i) above. (4 marks)

Q.3 (a) (i) The annual demand for material DM 491 is 4000 units and the purchase price is shs.90 per unit. The incremental cost of processing an order is shs.135/= and the cost of storage is estimated to be shs.12 per unit.

Determine:

(i) The optimal (economic) order quantity.
(ii) The annual stockholding costs
(iii) The annual stock order of cost
(iv) The total annual stock costs. (6 marks)

(ii) A supplier is giving a special offer of 4000 units at a price of shs.86 to be delivered immediately.

Calculate the annual stock costs, assuming there would be no incremental cost of placing this order. (6 marks)

(iii) Advice the management whether or not to take the special offer. (2 marks)

(b) Explain any **THREE** assumptions of cost volume profit analysis. (6 marks)

Q.4 (a) Briefly explain the following pricing methods.

(i) Market based pricing. (2 marks)

(ii) Cost based pricing. (2 marks)

(iii) Negotiated pricing. (2 marks)

(b) Briefly explain the major classes of ratios used in assessing the performance of a business. (6 marks)

(c) Using the Final Accounts given below, calculate the profitability margin ratios as asked below.

		Shs.000	Shs.000
Sales			6,500
Less:	Factoring cost of Sales:		
	Materials	2,610	
	Labour	1,140	
	Production overheads	725	4,475
	Gross profit		2,075
Less:	Adm. Overheads	666	
	Marketing & Distribution	426	
	Bank Interest	65	
	Loan Interest	240	1,397
	Net profit		512

Required:

(i) Gross Profit : Sales ratio
(ii) Net profit: Gross profit ratio
(iii) Labour cost: Sales ratio
(iv) Administration overheads: Gross profit ratio. (8 marks)

Q.5 (a) TradeWoods Co. makes a chemical that passes through two stages 1 & 2. In the month of October, 5,000 litres of basic raw material priced at shs.120,000 were introduced into process 1. Subsequently the following costs were incurred.

Process 1	**Shs.**
Direct Labour	80,000
Direct Expenses	30,000

At the end of the process 4,800 litres were passed into process 2.

Process 2	**Shs.**
Direct material (additional)	66,300
Direct Labour	60,000
Direct Expenses	24,000

At the end of the process 4,700 litres were passed on to the market.

Normal process losses for each of the two processes are process I – 3%, Process 2 – 2.5%.

There were no stocks of material or work in progress at the beginning or at the end of the month.

Manufacturing overheads are absorbed by each process at 25% of direct labour cost.

Required:

(i) Prepare separate process accents for each of the two processes. (4 marks)

(ii) Prepare the Abnormal and Loss & Abnormal Gain accounts. (4 marks)

(b) Majuto Ltd. Manufacturers and sells are type of furniture item.

The standard products costs of this item are as follows:

Direct Materials	**Shs.**
Material X – 25 metres @sh.1 per metre.	25
Material Y – 10 Kgs @shs.4 per Kg.	40
Direct Labour – 10 hrs @12.50/= per hour.	125

During the financial year ended 31st may 2007, 4000 units of output were produced. The actual production costs incurred during the year are given below:

Direct Material:	**Shs.**	**Shs.**
Material X (96000 metres)	86,400	
Material Y (31500 Kgs)	124,425	
Direct Labour (31,000 hrs)	410,750	

Required:

(i) Material variances (6 marks)
(ii) Labour variances (6 marks)