

CHUKA



UNIVERSITY

## UNIVERSITY EXAMINATIONS

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

BCOM 314: MANAGEMENT ACCOUNTING I

STREAMS: BED (ARTS) Y3S1

TIME: 2 HOURS

DAY/DATE: TUESDAY 06/04/2021

2.30 P.M. – 4.30 P.M.

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**INSTRUCTIONS: Answer question ONE and any other TWO questions**
**QUESTION ONE**

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

Period	Overhead cost	Output tonnes
1	78	12
2	82	15
3	81	16
4	83	17
5	96	20
6	90	17
7	94	22

**Required:**

- (i) Using high low method assist in formulating the cost function  $y = a + bx$   
[4 marks]
- (ii) Using the formulated equation in (i) above, estimate the overhead costs to be incurred given that the anticipated output is 16,400 tonnes  
[2 marks]
- (iii) Using simple regression assist in formulating the cost function  $y = a + bx$   
[7 marks]
- (iv) Using the formulated equation in (iii) above, estimate the overhead costs to be incurred given that the anticipated output is 16, 800 tonnes.  
[2 marks]

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(b) Differentiate between the following terminologies as used in management accounting using relevant examples

- (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]
- (v) Cost allocation and cost apportionment [3 marks]

### QUESTION TWO

(a) Sakani company is in the business of making Cow Pix a product used for deworming cattle. The company has embraced a standard costing system. Below is the information extracted from its records:

Standard cost of product Cow Pix	sh.
Material (5kg @ sh. 10 per kg)	50
Labour (4 hrs @ sh. 5 per hr)	20

#### Actual results

Materials	4850 kgs, sh. 46075
Labour	4200 hrs, sh.21210

#### Required:

Compute the following variances

- (i) Material usage variance [2 marks]
- (ii) Material price variance [2 marks]
- (iii) Total material cost variance [1 mark]
- (iv) Direct labor rate variance [2 marks]
- (v) Direct labour efficiency variance [2 marks]
- (vi) Total labour cost variance [1 mark]

(b) The following transactions relate to item A101 stocked by Excel product ltd. for the month of September 2006

Receipts:			Issues	
Date	Quantity	Unit cost (sh)	Date	Quantity
3	2,500		6	3,300
10	2,700		16	2,800
17	3,100		23	2,250
19	2,800		26	3,950
25	2,750			

The opening balance for the month of September 2006 was a batch of 3,000 units received at a unit price of sh. 20

#### Required:

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Under FIFO system of stores issues, a stores perpetual inventory record for item A101

[10 marks]

### QUESTION THREE

The following information was obtained from a company that manufactures motorbikes:

Opening inventory	0 units
Sales	8, 000 units
Production	10,000 units
Direct materials per unit	\$240
Direct labour per unit	\$280
Variable manufacturing costs per unit	\$100
Variable selling and administrative costs per unit	\$40
Fixed manufacturing overheads	\$1,200,000
Fixed selling and administration costs	\$800,000

Fixed manufacturing overheads are based on a production budget of 12,000 units

#### Required:

(a) Prepare profit and loss statement using

(i) Marginal costing

system

[5 marks]

(ii) Absorption costing system

[6 marks]

(iii) Profit reconciliation

[2 marks]

(b) Explain reasons why marginal costing is preferred to absorption costing

[2 marks]

(c) Explain three types of standards used in standard costing

[3 marks]

### QUESTION FOUR

A product passes through three production processes A, B and C. the normal wastage of each process A, B and C is 3%, 5% and 8% respectively. Scraps of process A was sold at 25 cents per unit, that of process B at 50 cents per unit and that of process C at sh. 1 per unit 10,000 units, were issued to process A in the beginning of October 2005 at a cost of sh. 1 per unit. The other expenses incurred were as follows:

	Process A	Process B	Process C
Additional material (sh)	1000	1500	500
Direct labour (sh)	5000	8000	6500
Direct expenses (sh)	1050	1188	2009
Actual output	9500 units	9100 units	8100 units

There were no opening and closing stocks

#### Required:

(i) Process accounts for process A, B and C

[15 marks]

(ii) Abnormal loss account

[3 marks]

(iii) Abnormal gain account

[2 marks]