

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATION
RESIT/SUPPLEMENTARY / SPECIAL EXAMINATIONS FOR THE AWARD OF
BACHELOR OF COMMERCE**

BCOM 314: MANAGEMENT ACCOUNTING I**STREAMS: BCOM****TIME: 2 HOURS****DAY/DATE: FRIDAY 07/05/2021****11.30 A.M - 1.30 P.M.****INSTRUCTIONS**

- Answer question one and any other two questions

QUESTION ONE(30 MARKS)

- a) Describe the managerial planning and decision making process (7 marks)
- b) Uchuguzi ltd is considering investing in one of three alternative investment opportunities P, Q and R under uncertain economic conditions. The conditional payoffs (in ksh '000') for each action-event combination are as given below

		Investments			
		Probability	P	Q	R
States of nature	E ₁	0.2	5000	7000	4000
	E ₂	0.3	-2000	1000	6000
	E ₃	0.5	4000	2000	4000

Required:

Determine which alternative investment should the firm choose if it adopts the

- (i) Maximax criterion (2 marks)
- (ii) Maximin criterion (2 marks)
- (iii) Savage principle (3 marks)
- (iv) Hurwiz criterion given $\alpha=0.8$ (3 marks)

(v) Expected monetary value (3 marks)

- c) An NGO in Kitui County is considering drilling a well. Based on experience, only 70% of the wells drilled in Kitui County were successful at 20 metres depth. On finding no water at 20 metres, some people in the area drilled further upto 25 metres but the success rate of striking water at that level has been only 20% . The prevailing cost of drilling is sh. 500 per metre. The NGO estimates that in case water is not found in the well, sh. 15000 will be used to buy water from outside suppliers for the same period it would have used water from the well.

The following decisions/options are being considered by the NGO;

- i) Do not drill well anywhere
- ii) Drill up to 20 Metres
- iii) If no water is found at 20 Metres, drill further to 25 Metres

Required:

Using a decision tree (roll back technique), advise the NGO on the most optimal strategy

(10 marks)

QUESTION TWO (20 MARKS)

During the month of April 2021, the production department of Kalache Ltd introduced 2000 units into process I. The normal loss was 5% of input. At the end of the month, 1400 units had been produced and transferred to the next process, 460 units were incomplete and 140 units had been scrapped. It was estimated that the incomplete units had reached a stage in production as follows:

- Material 75% completed
- Labour 50% completed
- Overhead 50% completed

Additional information:

- i) The cost of 2000 units introduced in process I was sh. 5800. Direct material added during the production process I amounted to ksh 1440, production overheads incurred were sh. 1670 while direct labour was ksh. 3340
- ii) Units scrapped realized sh. 1 each
- iii) The units scrapped have passed through the process, so were 100% completed as regards to material, labour and overhead

iv) The company uses FIFO method.

Required:

- 1) A statement of production, cost and equivalent units showing:
 - a) Statement of Equivalent units of production by element of cost. (4 marks)
 - b) Statement of Valuation of closing work in progress. (4 marks)
 - c) Statement of Valuation of finished goods. (4 marks)
 - d) Statement of valuation of Abnormal gain/loss (4 marks)
- 2) Process I account. (4 marks)

QUESTION THREE (20 MARKS)

- a) Differentiate between joint products and by-products giving examples in each case. (4 marks)
- b) 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	20000	25000	43000

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

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

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

Product	C	B	Z
	Sh.	Sh.	Sh.
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 (6 marks)
- ii) Suppose Company has a contracted obligation to produce 6,000 units of each product and the fixed production cost is sh. 50,000, what would be the maximum profit for the company? (4 marks)
- iii) Discuss any other three qualitative factors the company would have to consider in its product mix decisions (6 marks)

QUESTION FOUR (20 MARKS)

- a) Outline the assumptions of cost volume profit (CVP) analysis (5 marks)
- b) A company produces three joint products, Y₁, Y₂ and Y₃. The data below reflects average monthly results:

	Y ₁	Y ₂	Y ₃
Sales Value at split off (shs.)	0	30,000	105,000
Sales Value after Split off	45,000	100,000	155,000
Costs of further processing	20,000	40,000	65,000

The joint costs were Shs.100,000

Required:

Allocate the joint cost using Net Realizable value approach to allocate joint costs. (8 marks)

- c) Assume ABC Ltd produces two products A and B and the following budget has been prepared

	A	B	Total
Sales in units	120,000	40,000	160,000
Selling price per unit(sh)	5	10	
Variable cost per unit (sh.)	4	3	

Total fixed cost for the period sh. 300,000/=

Required:

Compute the break-even point for the whole company and for each of the products in units. (7 marks)

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