CHUKA UNIVERSITY

UNIVERSITY EXAMINATION

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

BCOM 314/BUST 421: MANAGEMENT ACCOUNTING

STREAMS: BCOM, BUST **TIME: 2 HOURS**

DAY/DATE: WEDNESDAY 11/08/2021 **2.30 P.M - 4.30 P.M.**

INSTRUCTIONS:

- **Answer question one and any other two questions**

QUESTION ONE

a) ABC Ltd. produces two products, Product 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	Sh. 10	
Total sales value	600,000	400,000	1,000,000
Variable cost per unit	Sh. 4	Sh. 3	
Total fixed costs			300,000

Required:

(i)Compute the break-even point for the whole company and for each product in units and in shillings. (10 marks)

ii) What are the assumptions upon which Break Even Point Analysis (CVP) model is based (5 marks)

b) Explain the usefulness of a budget in an organization. (5 marks)

c) The cost of making component Q which makes part of product Y is stated below

	Sh
Direct material	8
Direct labour	16
Production overhead	32
	56

The component can be bought from an outside supplier for sh 42

The fixed cost will not change and the variable production overheads is absorbed at the rate of 80% of direct labour

Production of 2000units of component Q internally will lock up the capacity for producing 200 units of another product that has a selling price of sh 40 per unit and variable cost of sh 36 per unit. The company requires 200 units of product Q

Required

Should the company make or buy the component Q (6 marks)

d) Differentiate between Joint and By-products giving relevant examples (4 marks)

QUESTION TWO

(a) Mambo Leo Ltd. produces and sells product **A** and **B**. It is in the process of preparing its operating budget for the forthcoming period. You are provided with the following information regarding the products:

Product	**A**	**B**
Material required:		
X(kgs)	2	3
Y(kgs)	1	4
Labour hours required:		
Skilled hours/unit	4	2
Semi-skilled hours/unit	2	5
Sales level in units	2,000	1,500
Opening stock (units)	100	200

Additional Information

- The selling price of A is sh 20 per unit while B sells at sh 50 per unit

- Closing sock of finished goods will be 10% of sales.
- Opening stocks of material X was 300kgs and for material Y was 1000 kgs. While closing stock of the materials are expected to be 80% of opening stock
- Material prices are Shs. 12 per kg of X and Shs. 5 per kg of material Y
- Labour costs Shs. 120 per hour for skilled labour and Shs. 80 per hour of semi-skilled labour.

Required:

Prepare the following budgets:

(i) Sales Budget (2 marks)

(ii) Production budget. (4 marks)

(iii) Material Usage Budget. (5 marks)

(iv) Material Purchase Budget (5 marks)

(v) Labour cost Budget. (4 marks)

QUESTION THREE

Roasters Limited is a coffee-blending firm. It produces a special blend of coffee known as "Utopia Blend" by mixing two grades of coffee "AB" and "QP" as follows:

Material	Standard mix ratio	Standard price per Kg
AB	40%	Sh 120
QP	60%	Sh 100

A standard loss of 15% is expected. During the month of March 2002, the company produced 2,500 kg of "Utopia Blend". The actual quantities blended were as follows:

	Quantity used	**Cost (Sh)**
AB	1,400kg	175,000
QP	1,600kg	152,000

Required:

Calculate the following variances

i) Material price variance (3 marks)

ii) Material mix variance (4 marks)

iii) Material yield variance (4 marks)

iv) Material cost variance (2 marks)

QUESTION FOUR

a) Explain three methods of Transfer pricing (5 marks)

b) Gitoro manufacturing company, manufactures a single product that is processed sequentially in three departments I, II and III. The following information is obtained in respect of process in department II for the month of March 2015. Opening work in process was 2,600 units valued at ksh 6,500. Degree of completion:

Materials	60%
Labour	50%
Overheads	40%

Transfer from department I during the month was 13,000 units valued at ksh 19,500.

Units transferred to department III were 10,600.

Direct materials added in department II amounted to ksh 15,900.

Direct labour amounted to ksh 13,100.

Overheads amounted to ksh 17,500.

Work in progress at 30th March 2015 was 1,500 units, which had the following degree of completion:

Materials	70%
Labour	50%
Overheads	40%

Normal loss was 10% of production and the scrapped realized ksh 2 per unit.

Required:

(a) Equivalent units of production by element of cost. (5 marks)

(b) Valuation of finished goods. (5 marks)

(c) Valuation of closing work in progress. (5 marks)

(d) Process II account. (5 marks)

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