

CHUKA



UNIVERSITY

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THIRD YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 314: MANAGEMENT ACCOUNTING

STREAMS: BCOM (ODEL) Y3S1

TIME: 2 HOURS

DAY/DATE: TUESDAY 20/7/2021

11.30 A.M. – 1.30 P.M.

INSTRUCTIONS: Answer question ONE and any other TWO questions

QUESTION ONE

- (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	2000	1500
Opening stock (units)	100	200

Additional information:

1. The selling price of A is sh 20 per unit while B sells at sh 50 per unit
2. Closing stock of finished goods will be 10% of sales
3. Opening stock 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.
4. Material prices are shs 12 per kg of X and shs. 5 per kg of material Y
5. Labour costs Shs. 120 per hour for skilled labour and shs. 80 per hour of semi-skilled labor

Required:

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Prepare the following budgets:

- (i) Sales budget [3 marks]
- (ii) Production budget [5 marks]
- (iii) Material usage budget [5 marks]
- (iv) Material purchase budget [5 marks]
- (v) Labour cost budget [5 marks]

- (b) Explain the concept of transfer pricing and discuss three methods of transfer pricing [7 marks]

QUESTION TWO

Budgeted and standard data for a product include the following

Material	Quantity (kg)	Price per kg (£)
X	60	2.00
Y	40	1.00
Z	100	1.40

From this standard mix, 180 kg of product are expected

Actual data for the first week in April were as follows

Output 1980 kg

Production and consumption of materials were as follows:

Material	Quantity (kg)
X	700
Y	440
Z	1120

Required:

Calculate the following direct material variances

- (i) Material price variance [2 marks]
- (ii) Material mix variance [5 marks]
- (iii) Material yield variance [5 marks]

- (b) Discuss non-financial measures that can be adopted to measure performance in performance appraisal [8 marks]

QUESTION THREE

(a) Wassant ltd manufactures a product that uses components made by the company. Due to market liberalization, the same component can be bought from an importer of the component. The management accountant of Wassant ltd has provided the following manufacturing data for the component:

	Shs.
Direct materials	
10 kg of zero 1 @ sh 25 per kg	250
Direct labour	
Department A 0.75 hours x sh 120	
Department B 0.6 hours x sh 125	165
Variable overheads	80

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Production overheads are recovered on basis of 20% of labour cost in both departments. The cost accountant anticipates that three-quarters of fixed overhead will be incurred irrespective of the decision made. The importer is willing to sell the component at sh 510 per unit.

Required:

- (i) Advise the management of Wassant ltd whether to make or buy the component [7 marks]
- (ii) What other factors would Wassant ltd consider before making the decision [3 marks]
- (b) Assume that 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
	<u>Sh.</u>	<u>Sh.</u>	<u>Sh.</u>
Sales @5/-, 10/-	600,000	400,000	100,000
Variable cost @ 4/-, 3/-	<u>480,000</u>	<u>120,000</u>	<u>600,000</u>
Contribution @ 1/-, 7/-	<u>120,000</u>	<u>280,000</u>	400,000
Total fixed cost			<u>300,000</u>
Profit			<u>100,000</u>

Required:

Compute the break-even point in total and for each of the products [10 marks]

QUESTION FOUR

Assume that ABC ltd is trying to set the selling price for one of its products and three prices are under consideration. These are sh.4, sh.4.30 & sh. 4.40

The following information is also provided

Alternatives

Conditions	Sh.4.00	Sh. 4.30	Sh. 4.40
Best possible	16,000	14,000	12,500
Most likely	14,000	12,500	12,000
Worst possible	10,000	8,000	6,000

Fixed costs = sh. 20,000

Variable cost per unit = sh. 2

Required:

Advice the company on the best price to set based on

- (i) Maximax decision rule [5 marks]
- (ii) Maximin decision rule [5 marks]
- (iii) Laplace criterion of rationality [5 marks]
- (iv) Minimax regret criterion [5 marks]