CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

FOURTH YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF EDUCATION (ARTS)

BUST 421: MANAGEMENT ACCOUNTING II

STREAMS: BUST (Y4S1) **TIME: 2 HOURS**

DAY/DATE: MONDAY 27/09/2021 **11.30 A.M. – 1.30 P.M.**

INSTRUCTIONS

- **Answer question ONE and any other TWO questions**

Question one

a) Explain the term benchmarking and give five limitations of benchmarking as a non-financial measure of performance. (7 marks)

b) The following information has been assembled by Sancross Products Ltd which manufactures and retails products A and B which sell as sh. 1000 each. The details given below relate to the year commencing 1 July 2016:

	Standard	**Usage in Product (kg)**	
	Price per kg	A	B
Direct material – M1	Sh 4	15	20
M2	Sh 5	14	12
	Standard	**Usage in product (hrs)**	
	Rate per hour	A	B
Direct labour – L1	Sh 8	20	15
L2	Sh 10	22	24

	Product	
	A	**B**
	Units	**Units**
Projected sales for the year	12,000	10,000

Finished goods stock position units is expected to be as follows:

	Product	
	A	**B**
1 July 2016	3,000	2,000
30 June 2017	5,000	4,000

Direct material stocks units are as follows:

	Material	
	M1 (000)	M2 (000)
1July 2016	200	250
30 June 2017	220	270

For the year to 30th June 2017, fixed production overhead has been estimated at sh 1,800,000 administration, selling and distribution expenses are recovered at the rate 20% of production cost. No opening or closing work-in-progress is anticipated.

Required:

a) Sales budget (3 marks)
b) Production budget in units (4 marks)
c) Direct materials usage budget. (4 marks)
d) Direct material purchases budget (4 marks)
e) Direct labour cost budget (4 marks)
f) Budgeted profit and loss statement (4 marks)

Question two

A company manufactures a product that requires three separate process for its completion. The output of one process is immediately input to the next process. The following information is provided in respect of process 2 of the month of March 2010.

Opening stock: 400 units valued at sh. 12800

Degree of completion – labour 50%

- Material 80%
- Overhead 50%

Transfer from process 1: 6000 units at sh. 177, 200

Transfer to process 3: 5000 units

Production costs during the period were;

Direct material Sh. 42,880

Direct labour 53,080

Products overheads 36,036

Closing stock: 800 units

Stage of completion, material 80%

Labour 60%

Overheads 40%

Units scrapped: 600 units

Degree of completion, Material 80%

Labour 60%

Overheads 40%

Units scrapped: 600 units

Degree of completion; Material 100%

Labour 70%

Overheads 70%

There was a normal loss in the process of 10% of production. Units scrapped realized sh.25 each.

Prepare: Using FIFO METHOD

Statement of equivalent production

Statement of cost

Statement of valuation

Process 2 accounts

Abnormal loss/gain A/c (20 marks)

Question three

Assume that ABC Ltd produces two products, products A and B and the following budget has been prepared.

	A	**B**	**Total**
Sales in units	240,000	80,000	320,000
	Sh.	**Sh.**	**Sh.**
Sales @5/-, 10/-	1,200,000	800,000	2,000,000
Variable cost @ 4/-, 3/-	(960,000)	(240,000)	(1,200,000)
Contribution @1/-, 7-	240,000	560,000	800,000
Total fixed cost			600,000
Profit			**200,000**

Required:

a) Compute the break-even point in total and each of the products. (9 marks)

b) Explain three methods of transfer pricing. (6 marks)

c) Discuss five non-financial measures that can be adopted to measure performance in performance appraisal. (5 marks)

Question four

a) A company is considering investing in one of three investment opportunities A, B and C under certain economic conditions. The payoff matrix for this situation is economic condition.

State of nature	Investment opportunities		
	A	B	C
E1	5000	2000	3000
E2	7000	10000	4000
E3	3000	6000	4000

Determine the best investment opportunity using the following criteria

i. Maximin (2 marks)

ii. Maximax (2 marks)

iii. Laplace criterion (2 marks)

b) V. Ltd manufactures a single product, the standard mix of which is as follows:

Material A 60% at sh. 20 per kg

Material b 40% at sh. 10 per kg

Normal loss in the production is 20% of input. Due to shortage of material A, the standard mix was changed and the actual was as follows:

Material A 105 kg at sh.20 per kg

Material B 95 kg at sh. 9 per kg

Actual loss was 35 kg, while the actual output was 165kg.

Required:

i. Material price variance (4 marks)

ii. Material Mix variance (5 marks)

iii. Material yield variance (5 marks)

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