

CHUKA



UNIVERSITY

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EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF EDUCATION ARTS

BCOM 314: MANAGEMENT ACCOUNTING I

STREAMS: BED (ARTS)

TIME: 2 HOURS

DAY/DATE: MONDAY 17/12/2018

2.30 P.M. – 4.30 P.M.

INSTRUCTIONS:

- Answer question ONE and any other TWO
- Do not write on the question paper

QUESTION ONE

(a) Distinguish between the following terminologies as used in management accounting

- | | |
|--|-----------|
| (i) Cost centre and revenue centre | [2 marks] |
| (ii) Relevant costs and irrelevant costs | [2 marks] |
| (iii) Product costs and period costs | [2 marks] |
| (iv) Cost unit and unit cost | [2 marks] |

(b) Dawa ltd manufactures a single type of a liquid chemical. The company’s production overheads vary with the volume of production in litres. The volume of production and the amount of overheads for 10 months ended on 31st October 2018 were as presented below

Month	JAN	FEB	MARC H	APR	MAY	JUNE	JULY	AUG	SEP	OC T
Volume of production	150	120	200	170	120	250	220	90	180	300
overheads (litres)										
Production overheads (sh)	180	1400	2300	1900	1600	3000	2700	1100	240	320
	0								0	0

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Required:

- (i) Estimate the cost function using high-low method [3 marks]
 - (ii) Estimate the cost function using regression analysis method [7 marks]
 - (iii) Using regression analysis cost function estimate the production overheads for the month of December of the volume if production overheads were 245 litres [2 marks]
- (c) The management of ABC Ltd is planning to sell badges in the forthcoming Nairobi show at sh. 9 each. Each badge costs sh. 5 to produce and the company will incur sh. 2000 to rent a booth in the showground

Required:

- (i) Compute the break-even points in units and in shillings [3 marks]
 - (ii) Determine the margin of safety in units if 600 badges are sold [2 marks]
 - (iii) Compute the number of badges that must be sold to earn an after tax profit of sh 1640 assuming the tax rate is 40% [3 marks]
- (d) State any two limitations of CVP analysis [2 marks]

QUESTION TWO

- (a) Sanders Ltd is a manufacturing company that produces and sells a single product "P8IR". In constant price level terms, its unit cost structure is as follows

	Sh.
Direct materials	3
Direct labour	2
Variable manufacturing overheads	1
Variable selling cost	1
Selling price per unit	10

- Fixed manufacturing cost is sh 25000 per period
- Fixed selling and administration cost is sh. 5000 per period
- The following information has been provided for the year 2017

Opening stock	3000	units
Production	19000	units
Sales for the period	21000	units
Closing stock	1000	units

Required:

Assuming the costs characteristics of all units are the same as the 19000 units produced prepare:

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Annual demand in units	20000	25000	43000
Machine hours/unit	½ hrs	¾ hrs	⅓ hrs

The following information relates to each unit of the products P, Q and R produced

	P	Q	R
Direct materials	15	12	14
Direct labour	25	20	14
Variable manufacturing overheads	7	5	8
Selling price	60	48	50

The company can only manage to get a maximum of 30,000 machine hours per annum

Required:

- (i) Advise the management on the most profitable product mix [6 marks]
- (ii) If the fixed cost of the company is ksh 200,000 what would be the maximum profit obtained from the optimum product mix [3 marks]
- (b) XYZ ltd manufactures and sells a product branded as T28V. The standard production costs of the product per unit are as follows

Material X – 25 metres @ sh. 1/metre	Sh. 25
Y – 10 kg @ sh. 4/ kg	40
Labour: Direct labour – 10 hrs @ sh 12.5/hr	125
Overheads: Variable sh. 2.5/hr	25
Fixed sh. 3/hr	30

The overheads are absorbed on the basis of direct labour hours

The budgeted production for the year was 3500 units

During the year ended 31st December 2017, 4000 units of output were produced and the actual costs were as follows:

Direct material X – 96000 metres	Shs. 86,400
Y – 31500 kg	124425
Direct labour 31000 hrs	410750
Overheads: Fixed	151060
Variable	143800

Required:

- (i) Material price and usage variances [3 marks]
- (ii) Labour rate and efficiency variances [3 marks]
- (iii) Total variable overhead cost variance [3 marks]

(iv) Fixed overhead volume variance

[2 marks]

