CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

**EXAMINATION FOR THE AWARD OF DEGREE OF
DIPLOMA IN BUSINESS MANAGEMENT AND DIPLOMA IN PROCUREMENT AND LOGISTICS MANAGEMENT**

DIAC 0226: MANAGEMENT ACCOUNTING

STREAMS: DIAC **TIME: 2 HOURS**

DAY/DATE: MONDAY 10/12/2018 **8.30 AM – 10.30 AM**

INSTRUCTIONS:

Answer Question One and any other Two Questions

Question One

(a) Distinguish the following terms as used in management accounting

(i) Direct and indirect costs [2 marks]
(ii) Controllable and uncontrollable costs [2 marks]
(iii) Product costs and period costs [2 marks]

(b) Expo company limited makes a chemical that passes through three production process, 1, ii, iii. In the month of August 6000 litres of the basic raw material priced at sh 24000 were introduced into process 1. Subsequently the following costs were incurred:

Element of cost	Total Shs	Process 1 Shs	Process II Shs	Process II Shs
Direct material (additional)	87000	30000	40000	17500
Direct labour	110000	4000	50000	20000
Direct expenses	16900	600	1600	9300

Normal loss per process was estimated as:
Process 1 10%
Process II 5%
Process III 8%
Output of each process was:
Process 1 5300

Process II 5000
Process III 4700
The loss in each process represented scrap which could be sold at the following values
Process 1 shs 20 per unit
Process II shs 44 per unit
Process III shs 65 per unit
There were no stocks of material or work-in-progress at the beginning or end of the month. The output of each process passes directly to the next process and finally to finished stock

Required:

(i) Prepare separate process accounts for each of the three processes. [15 marks]

(ii) Prepare the abnormal loss and abnormal gain accounts. [2 marks]

(b) With reference to accounting for overheads in cost centres of organization, explain the relevance of activity-based costing (ABC) in allocating costs to products. [7 marks]

Question Two

The following information was extracted from the books of Happy ltd for the year ended 31/12/2017

Output	100000 units
Production cost s	
Direct labour costs	5 million
Direct material costs	2 million
Variable overheads	2 million
Fixed overheads	4 million
Units sold	9000
Selling price per unit	sh 100000

Assume using stocks at the end of the previous period were nil.

required:

(i) Determine cost per unit using absorption costing [3 marks]
(ii) Prepare the income statement using absorption costing [5 marks]
(iii) Determine cost per unit using marginal costing [3 marks]
(iv) Prepare the income statement using marginal costing [5 marks]
(v) Prepare reconciliation of marginal costing and absorption costing profits. [4 marks]

Question Three

The following information is related to the proposed budget of KK limited for the month ending 31st December 2017.

Month	Sales	Material purchases	Wages	Production overheads	Administration overheads
	Sh 000	Sh 000	Sh 000	Sh 000	Sh 000
July	72000	250000	10000	6000	5500
August	97000	31000	12100	6300	6700
September	86000	25500	10600	6000	7500
October	88600	30600	25000	6500	8900
November	102500	37000	22000	8000	11000
December	108700	38800	23000	15200	11500

Additional Information:

1. Depreciation expenses are expected to be 0.5% of sales
2. expected cash balance in hand on 1st July 2017 is sh 72500000
3. 50% of total sales are cash sales
4. Assets are to be acquired in the month of august and October at sh 8000000 and sh 25000000 respectively
5. An application has been made to the bank for the grant of a loan of sh 30000000 and it is hoped that it will be received in the month of November.
6. It is anticipated that the dividend of sh 35000000 wil be paid in December
7. Debtors are allowed one month's credit
8. Sales commission at 3% of sales is paid to the salesmen each month.
   Required:
   A cash budget for the six months ending 31st December 2017 [20 marks]

Question Four

(a) Define a variance and highlight possible causes of labour rate. [3 marks]

(b) T-momanufacturers sells product CD95. The company operates a standard marginal costing system. The standard cost cad for CD95 includes the following

	Sh per unit
Direct material	20
Direct labour hours at sh. 7.50 per hour	45
Variable production overheads	27
	92
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The budgeted and actual activity for the last quarter were as follows

	Budget units	Actual units
Sales	20000	19000
Production	20000	21000

The actual costs incurred in last quarter were;

	Shs
Direct material	417900
Direct labour (14950 hours)	949620
Variable production overheads	565740

Required:

(a) Calculate the total variances for direct material, direct labour, and variable production overheads. [10 marks]

(b) Provide an appropriate breakdown of the total variance for direct labour calculated in (a) above. [3 marks]

(c) Suggest two possible causes for each variance calculated in (b) above. [4 marks]
