CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 314: MANAGEMENT ACCOUNTING

STREAMS: BCOM (ODEL) Y3S1 **TIME: 2 HOURS**

DAY/DATE: TUESDAY 03/12/2019 **8.30 AM – 10.30 AM**

INSTRUCTIONS:

Answer Question One and any other Two Questions

QUESTION ONE

(a) Kenya Ltd manufactures three products X, Y and Z. The following information relates to the products.

Sales forecast		Quantity	Price / unit
Product	X	1000	Sh 100
	Y	2000	Sh 120
	Z	1500	Sh 140

Materials used in the company products are
Materials S1 sh. 4 per unit
Material S2 sh. 6 per unit
Materials S3 sh. 9 per unit
Quantities used in product

	S1	S2	S3
X	4	2	-
Y	3	3	2
Z	2	1	1

Finished stock	X	Y	X
Opening stock	1000	1500	500
Closing stock	1100	1650	550

	S1	S2	S3
Material stocks opening stock	26000	20000	12000
Closing stock	31200	24000	14400

Required:

(i) Sales budget in quantity and value [2 marks]
(ii) Production budget [5 marks]
(iii) Material usage budget [5 marks]
(iv) Material purchase budget [5 marks]

(b) Explain four reasons for adopting performance measurements. [8 marks]

(c) Explain three methods that can be adopted in transfer pricing. [5 marks]

QUESTION TWO

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 and 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	12,000
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 the following methods
(i) Maximax [5 marks]
(ii) Minmax [5 marks]
(iii) Laplace Criteria of Rationality [5 marks]
(iv) Minimax Regret Criterion [5 marks]

QUESTION THREE

(a) To manufacture one unit of “Kep”, a canned food product, Jumbo processors limited requires materials costing sh. 2800 and must employ two hours of direct labour at sh 360 per hour. The company’s overheads are all fixed and amount to sh. 768,000 per month. The product retails at a price of sh. 7200 per unit.
Recently, a special offer was made to the company to take up a contract to manufacture a variant of “Kep”. This offer is worth sh. 648,000. The company’s cost accountant has been

asked to carry out the analysis to establish whether or not it would be cost effective for the company to undertake the contract.

The following information relates to the special offer.

1. It is estimated that the contract would require 20 hours of direct labour
2. The material needed would cost sh. 136,800
3. A specialized component would have to be incorporated into the product. The specialized component could either be purchased from an outside supplier for sh. 360,000 or alternatively, it could be made by Jumbo processors ltd itself using material costing sh. 14,400 and an additional time of 12 hours.

Required:

(i) The contribution per unit of the key factor in production of "Kep". [4 marks]

(ii) Should Jumbo processors ltd make or buy the specialized component? [4 marks]

(iii) Decision on whether or not to accept the special offer to make the variant. [5 marks]

(iv) What other two factors should be considered in making the decision in (iii) above? [2 marks]

(b) Explain the decision-making process. [5 marks]

QUESTION FOUR

(a) 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	1400 kg	175,000
QP	1600 kg	152,000

Required:

Calculate the following variances:

(i)	Material price variance	[4 marks]
(ii)	Material mix variance	[5 marks]
(iii)	Material yield variance	[5 marks]
(iv)	Material cost variance	[2 marks]

(b) Explain four assumptions of CVP analysis [4 marks]
