

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DIPLOMA IN ACCOUNTANCY

DIAC 0226: MANAGEMENT ACCOUNTING II

STREAMS: DIAC Y2S2

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) Kikwetu Enterprises is a firm operating in textile industry. The budgeted sales for fabric “M” for the month of August 2006 are 20,000 units at a selling price of sh. 4000 per unit.

Additional information:

For the production of one unit of output of fabric “M”, the following two components of inputs are used.

Component	Number of Units	Cost per Component Sh.
A	10	40
B	6	20

Stocks at the beginning of August 2006 are budgeted as:
8,000 units of finished product at sh. 2,100 per unit

Components: A – 32000 units at sh. 40 per unit
B – 19,200 units at sh. 20 per unit

Production of each unit of fabric “M” requires the following labour hours:

Department	Hours per Unit	Labour rate per hour (sh)
Production	8	200
Finishing	4	180

Factory overheads are absorbed into unit cost on the basis of direct labour hours. The budgeted factory overheads for the month are given as sh. 3,840,000
The administration, selling and distribution overheads for the month are budgeted at sh. 11,000,000

The company plans a reduction of 50% in quantity of finished stock at the end of the month and a decrease of 25% in the quantity of each input component.

Required:

For the month of August 2006:

- | | | |
|-------|------------------------------------|-----------|
| (i) | Sales budget | [2 marks] |
| (ii) | Production quantity budget | [4 marks] |
| (iii) | Material usage budget | [5 marks] |
| (iv) | Material purchase budget | [4 marks] |
| (v) | Direct labour cost budget | [5 marks] |
| (vi) | A budgeted profit and loss account | [6 marks] |

- (b) Differentiate between joint products and by-products, giving examples in each case. [4 marks]

QUESTION TWO

- (a) Linda Furniture's Ltd manufactures a wide range of home furniture. Recently, the company add to its range a sideboard. The standard cost specification for each sideboard is given below:

Material: Timber	6 kg at sh. 280 per kg
Varnish	0.5 litres at sh. 300 per litre
Labour	8 hours at sh. 60 per hour

Budgeted variable overhead 40,000

During the month of September 2004, 620, sideboards were manufactured. The actual quantities and costs incurred were as follows:

Quantity		Sh.
Material: Timber	4500 kg	1,125,000
Varnish	290 litres	84,100
Labour hours	5200hrs	364,000
Actual variable overheads		42,000

Required:

- (i) Material price variance for each material and the total material price variance. [5 marks]

- (ii) Material usage variance for each material and the total material usage variance. [5 marks]
 - (iii) Labour efficiency variance
 - (iv) Labour rate variance
 - (v) Variable overhead expenditure variance [1 mark]
- (b) Describe the following pricing approaches used in transfer pricing
- (i) Cost-based pricing [3 marks]
 - (ii) Negotiated transfer pricing [2 marks]

QUESTION THREE

The following data pertains to process 1 for March 2013 of Beta Ltd.

Opening work in progress 1500 units at sh. 15,000

Degree of completion:

Materials 100%, labour and overhead $33\frac{1}{3}$

Input materials 18500 units at sh. 52,000

Direct labour sh. 14,000

Overheads sh. 28,000

Closing work in progress 5000 units

Degree of completion: material 90%, labour and overheads 30%

Normal process loss is 10% of total input

(opening work-in-progress units + units put in)

Scrap value sh. 2 per unit

Units transferred to the next process 15000 units

Assume FIFO method is used by the company.

Required:

- (i) Compute equivalent units of production. [5 marks]
- (ii) Compute cost per equivalent unit for each cost element. [3 marks]
- (iii) Compute the cost of finished output and closing work in progress. [6 marks]
- (iv) Prepare process account and other accounts. [6 marks]

QUESTION FOUR

- (a) Assume ABC ltd produced two products A and B and the following budget has been prepared.

	A	B	Total
Sales in units	120,000	40,000	160,000
Selling price per unit(sh)	5	10	
Variable cost per unit (sh)	4	3	

Total fixed cost for the period sh. 300,000

Required:

Compute the break-even point for the whole company and for each product in shillings.
[5 marks]

- (b) Delmonte E.A Ltd produced three products from which the following operating statement has been produced.

Product	X	Y	Z
Sales	31000	50000	45000
Total costs (sh)	36000	38000	34000
Net profit/loss	<u>(4000)</u>	<u>12000</u>	<u>11000</u>

The total costs comprise $66\frac{2}{3}\%$ variable and $33\frac{1}{3}\%$ fixed.

The directors consider that as product X shows a loss, it should be discontinued.

Based on the above cost data

- (i) Should product X be dropped? (Support your answer with appropriate computation). [5 marks]
- (ii) What other two factors should be considered in evaluating the decision in (i) above? [2 marks]
- (c) Explain four reasons for adopting performance measurements. [8 marks]
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