CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

THIRD YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 314: MANAGEMENT ACCOUNTING

STREAMS: BCOM Y3S2 **TIME: 2 HOURS**

DAY/DATE: WEDNESDAY 08/04/2020 **11.30 A.M. – 1.30 P.M.**

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. 4,000 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
A	10	
B	6	

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

Components: A – 32,000 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 (3 marks)

(iii) Material usage budget (4 marks)

(iv) Material purchase budget (4 marks)

(v) Direct labour cost budget (4 marks)

(vi) A budgeted profit and loss account (6 marks)

(b) Explain the term benchmarking and giving benefits of benching as non-financial measure of performance. (7 marks)

QUESTION TWO

(a) The following information relates to Unilever Company Ltd on their two popular products Booker and Royal.

Details	Booker	Royal	Company wide
Product mix in units	140,000	60,000	200,000
Selling price	72	60	13,680,000
Variable cost	48	14	7,560,000
Fixed cost			3,200,000

(i) Assuming the above product/sales mix compute the break-even point for the whole company and for each product. (5 marks)

(ii) What would be the break-even point if the sales mix is changed to 60:40 or (3:2)

(5 marks)

(b) Engineering ltd produces castings, which are transferred to the machine shop of the same company at standard prices. A standard costing system is applied. Basic standards in regard to materials stocks of which are kept at standard prices are as follows:

Standard mixture	70% ingredient	Y
	30% ingredient	Z
Standard prices	Ingredient Y	Sh. 480 per tonne
	Ingredient Z	Sh. 130 per tonne

Figures in respect of November 2015 month are as follows:

Opening stock	Ingredient Y	100 tonnes
	Ingredient Z	60 tonnes
Closing stock	Ingredient Y	110 tonnes
	Ingredient Z	50 tonnes
Purchases	Ingredient Y	300 tonnes cost Ksh. 147,000
	Ingredient Z	100 tonnes cost Ksh. 12,500

Mixture melted 400 tonnes
Casting produces 375 tonnes
Standard loss is estimated at 10% of input.
Required:

(a) Material price variance. (2 marks)

(b) Material mixture variance. (4 marks)

(c) Material yield variance. (4 marks)

QUESTION THREE

The following data pertains to process I 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
Input materials 18500 units at Sh. 52,000
Direct labour Sh. 14,000
Overheads Sh. 14,000
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 methods 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. (6 marks)

QUESTION FOUR

(a) Explain three methods of Transfer pricing. (5 marks)

(b) Differentiate between Joint and By-products giving relevant examples. (4 marks)

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

Product	X	Y	Z
Sales	32,000	50,000	45,000
Total costs (Sh.)	36,000	38,000	34,000
Net profit/loss	(4000)	12,000	11,000
	=====	=====	=====

The total costs comprise 66% variable and 33% 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)

(d) 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)

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