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UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

AGBM 324: MANAGERIAL ACCOUNTING II

STREAMS: ODEL

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 12/04/2023

2.30 P.M – 4.30 P.M

INSTRUCTIONS:

Answer question one and any other two questions

Do not write on the question paper

QUESTION ONE

(a) Describe the following pricing approaches used in transfer pricing:

- | | |
|----------------------------------|-----------|
| (i) Cost –based pricing | [2 marks] |
| (ii) Negotiated transfer pricing | [2 marks] |

(b) Kajiado limited is contemplating investing in one of three investment opportunities under certain economic conditions.

| Alternatives | | | |
|---------------------------------|-----------|-----------|-----------|
| Conditions | Ksh 50.00 | Ksh 70.00 | Ksh 90.00 |
| Best possible | 3600 | 2400 | 2800 |
| Most likely | 5400 | 2100 | 2700 |
| Worst possible | 2000 | 1900 | 1800 |
| Fixed costs = ksh 25,000 | | | |
| Variable cost per unit = ksh 40 | | | |

Required:

Advice the company on the best price to set using:

- (i) Maximax decision rule [4 marks]
 - (ii) Maximin decision rule [4 marks]
 - (iii) Lapse criterion of rationality [4 marks]
- (c) EFG Ltd produces two products, E and F, the following budget has been prepared:

| | E | F | Total |
|------------------------|---------|---------|-----------|
| Sales in units | 165,000 | 90,000 | 210,000 |
| Selling price per unit | Ksh 18 | Ksh 22 | |
| Total sales value | 750,000 | 560,000 | 1,340,000 |
| Variable cost per unit | Ksh 9 | Ksh 10 | |
| Total fixed costs | | | 570,000 |

Required:

- (a) Compute the break even point for the whole company and of each product in units and in shillings. [10 marks]
- (b) What are the assumptions upon which break even point analysis (CVP) model is based. [4 marks]

QUESTION TWO

The following data is available in respect of process 1 for December 2022:

- (i) Opening work in progress 700 units at a cost of ksh 4100
- (ii) Degree of completion of opening W.I.P
 - (a) Material 100%
 - (b) Labor 60%
 - (c) Overhead 60%
- (iii) Input of material into the process at a total cost of ksh 4100
- (iv) Direct wages incurred ksh 36,000

- (v) Production overheads ksh 7380
- (vi) Units scrapped: 1100 units at the following stages of completion:
 - (a) Material 100%
 - (b) Labour 60%
 - (c) Overhead 70%
- (vii) Closing work in progress : 900 units at the following stages of completion.
 - (a) Material 100%
 - (b) Labour 70%
 - (c) Overhead 70%
- (viii) 7900 units were completed and transferred to the next process:
- (ix) Normal loss is 9% of the total input (opening stock of W.I.P plus input units)
- (x) Scrap value is ksh 5 per unit

Required:

- (i) Statement of equivalent units [4 marks]
- (ii) Statement of cost per unit [3 marks]
- (iii) Statement of evaluation [8 marks]
- (iv) Process 1 account [5 marks]

QUESTION THREE

- (a) ABC Ltd produced three products A,B and C from which the following operating statement has been produced.

| Product | A | B | C |
|-------------------|----------|--------|--------|
| Sales | 31,000 | 90,000 | 85,000 |
| Total costs (ksh) | 58,000 | 45,000 | 34,000 |
| Net profit/loss | (27,000) | 45,000 | 51,000 |

The total costs compromise 662/3% variable and 331/3% fixed.

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

Required:

1. Should product A be dropped? (support your answer with appropriate computation) [5 marks]
- (b) Explain the term benchmarking and give benefits of benching as non financial measure of performance. [6 marks]
- (c) A specialized component could either be purchased from an outside supplier for ksh 350,000 or alternatively it could be made by KK Ltd using material costing ksh 26,000 and an additional time of 12 hours.

Required:

- (i) The contribution per unit of the key factor in producing of ‘specialized component’. [4 marks]
- (ii) Should KK Limited make or buy the specialized component? [5 marks]

QUESTION FOUR

ABC Limited has the following budgeted and standard data for products as follows:

Direct labour: 30 employees work a 45 hour week. Standard rate of pay is ksh 9 per hour. Output per hour is 60 kg of product.

Direct materials:

| Material | Quantity (kg) | Price per kg (ksh) |
|----------|---------------|--------------------|
| A | 70 | 12.00 |
| B | 50 | 10.00 |
| C | 140 | 11.40 |

From this standard mix, 195 kg of product are expected.

Actual data for the first week in April, were as follows,

| | |
|-------------------|----------------|
| Hours worked | 45 |
| Rate of pay | ksh 5 per hour |
| Overhead incurred | ksh 4500 |
| Output | 1890 kg |

Production and consumption of materials were as follows:

| Material | quantity (kg) |
|----------|---------------|
| A | 890 |
| B | 640 |
| C | 1510 |

Required:

- (i) Material price variance [4 marks]
 - (ii) Material mix variance [4 marks]
 - (iii) Material yield variance [4 marks]
 - (iv) Material usage variance [4 marks]
 - (v) Direct labour efficiency variance [4 marks]
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