TECHNICAL UNIVERSITY OF MOMBASA

Faculty of Business and Social Studies

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR DEGREE IN

BACHELOR OF BUSINESS ADMINISTRATION

BACHELOR OF COMMERCE

BAC 4203 MANAGEMENT ACCOUNTING

END OF SEMESTER EXAMINATIONS

SERIES: APRIL 2015

TIME: 2 HOURS

INSTRUCTIONS:

- Answer Question **ONE (Compulsory)** and any other **TWO** questions.
- Do not write on the question paper

This paper consists of Four printed pages

QUESTION 1 (Compulsory)

a) Mbuta Ltd produces & sells a single product "Zed" the sales to the last two seasons were as follows:

Period	**Sales** Sh. 000	**Net profit** Sh. 000
1	200	50
2	400	160

The selling price per unit is sh. 25.

Required:

Using high and low method, estimate the cost of producing 30,000 units. **(5 marks)**

b) A company sells two products A and B. A contributes 40% of sales towards fixed costs and Net Profit while B contributes 30%. The selling prices are sh. 100 and sh. 50 for A & B respectively. Fixed costs amount to sh. 720,000 per month. Monthly sales average 300,000 units for A and 400,000 units of B. **(5 marks)**

Required:

i) Assume the same sales mix, calculate the sales volume necessary to breakeven, in shillings and in units. **(5 marks)**

ii) The marketing manager has proposed that with additional advertising expenditure of sh. 97,000 per month, sales of A can increase by 10% while that of B will decrease by 20%. Should this proposal be accepted? **(10 marks)**

c) Briefly explain any **FIVE** assumptions of cost volume profit analysis. **(5 marks)**

QUESTION 2

Keroche Soft Drinks makes three brands Ace, Bale and Chale. Their current production mix is 60,000, 120,000 and 80,000 for Ace, Bale and Chale respectively. Ace's contribution ratio is 20%, Bales is 10% while Chale's is 40%. The company's marketing manager has established that a new product 'Yen' could be introduced into the market. Product 'Yen' costs sh. 25 to produce and sells at shs. 40 per unit. If 'Yen' is to be produced, Bale has to be dropped. A maxim of 50,000 units of 'Yea' can be produced from what is currently used to produce bale. The selling price for Ace, Bale & Chele are sh. 45, 30 and 50 respectively.

Required:

a) Advice the company on whether to drop or continue producing Bale. **(10 marks)**

b) The following results were for BAC 4203 Ltd for the past two reasons.

Season	Sales sh.	Net profit before tax
1	100,000	15,000
2	200,000	50,000

Required:
The sales level that will give a net profit after tax of 42,000. If the company's tax rate is 30%.
(10 marks)

QUESTION 3

Kiwasco Ltd has two departments i.e Assembly and Finishing. Assembly department feeds Finishing which in turn sells the products to the customers. One unit of Assembling produces as a single unit from Finishing. The market demand for the final product is as follows:

Selling price	**Quantity sold**
Sh.	**Units**
100	1,200
90	2,400
80	3,600
70	4,800
60	6,000
50	7,200

The cost per department were as follows:

	Assembly	**Finishing**
Variable cost per unit	12	8
Fixed cost per annum	60,000	80,000

Intermediate goods are transferred for Assembling to Finishing at sh. 40 per unit. Raw materials are acquired at sh. 10 per Kg and to produce the final product a kg of Raw material is used.

Required:

a) Income statements for each division at each level of sales. **(15 marks)**

b) Which production level maximizes the profit for each department? **(5 marks)**

QUESTION 4

a) Briefly explain the merits of standard costing. **(5 marks)**

b) The following details were obtained for Beta Co. Ltd.

Resources	**Quantity**	**Unit price**	**Cost per unit**
Raw materials	20 metres	10	200
Labour	10 litres	20	200
Fixed overheads	8 Hours	15.25	122
Budgeted production 1500 units	1500 units		

Actual results

Resources	Quantity	Total cost
Raw material	30,200	256,700
Direct labour	11,500	241,500
Fixed overhead	8,000	207,00
Actual production	1,040 units	

Required:

i) Material variance(s) **(5 marks)**

ii) Labour variance(s) **(5 marks)**

iii) Fixed overhead variances **(5 marks)**

QUESTION 5

The following information is provided in respect of process 1 of the month of March 2014.

- Raw materials introduced 6,000 sh. 30 @.
- Transfer process 2, 5,000 units

Production cost during the month

- Direct materials 52,500
- Direct labour 60,800
- Production overheads 30,000

Closing stock 800 units

Degree of completion:

Materials	100%
Labour	80%
Overheads	60%

Normal losses was 10%

Units scrapped were sold at sh. 30 per unit

Required:

a) Process 1 Account. **(4 marks)**

b) Briefly explain the following terms and explain how they are treated in process costing:

i) Abnormal loss. **(3 marks)**

ii) Abnormal gain. **(3 marks)**