



TECHNICAL UNIVERSITY OF MOMBASA
Faculty of Business & Social Studies

DEPARTMENT OF BUSINESS STUDIES

DIPLOMA IN PROCUREMENT AND MATERIALS MANAGEMENT
DIPLOMA IN BUSINESS ADMINISTRATION
DIPLOMA IN BUSINESS MANAGEMENT

BAC 2202: MANAGEMENT ACCOUNTING I

SPECIAL/SUPPLEMENTARY EXAMINATIONS

SERIES: FEBRUARY 2015

TIME: 2 HOURS

INSTRUCTIONS:

- This paper consists of **FIVE** questions.
- Answer question **ONE (Compulsory)** and any other **TWO** questions.

This paper consists of Four printed pages.

QUESTION 1 (Compulsory)

- a) Explain any **SIX** roles of a management accountant in an organization. **(12 marks)**
- b) ABC Ltd makes a single product whose budget is as follows:

	Sh.	Sh.
Selling price		30
Less costs		
Direct material	9	
Direct labour	4	
Direct production expenses	6	
Variable selling expenses	<u>4</u>	<u>(23)</u>
Contribution		<u>7</u>

Additional information

1. Unit sales are expected to be:-

June	July	August	September	October
1,000	800	400	600	900

2. Credit sales will account for 60% of total sales. Debtors are expected to pay in the month following sale for which there will be a cash discount of 2%.
3. Stock levels will be arranged so that production in one month will meet the next month's sales demand.
4. The purchases of direct materials in one month will just meet the next month's production requirements.
5. Suppliers of direct materials will be paid in the month following purchases.
6. Labour costs will be paid on the month in which they are incurred. All other expenses will be paid in the month following that in which they are incurred.
7. Fixed expenses are sh. 2000 per month and include sh. 180 for depreciation.
8. The bank balance at 1st July 2009 is sh. 3,900 favourable to the business.

Required:

A cash budget for ABC Ltd for the 3 months period ending 30th September 2009 showing the balance of cash at the end of each month. **(18 marks)**

QUESTION 2

- a) Explain the concept of time value of money. **(4 marks)**
- b) Outline **THREE** advantages and **THREE** disadvantages of payback period as a method of investment appraisal. **(6 marks)**
- c) ABC Company was considering buying a new machine at a cost of sh. 3,200,000. This machine would be useful for five years, after which it will be sold for sh. 200,000. The machine will generate the following cash inflows:

Year	Cash inflow
1	900,000
2	800,000
3	1,300,000
4	750,000
5	500,000

Advise the company on whether to buy the machine using the payback period method. **(10 marks)**

QUESTION 3

The production Manager of ABC Ltd is concerned about the apparent fluctuation in efficiency and wants to determine how labour costs (in sh.) are related to volume. The following data represents results of the 12 most recent weeks.

Week No.	Units produced (x)	Labour cost /Y
1	34	340
2	44	346
3	24	287
4	36	262
5	30	220
6	49	416
7	39	337
8	21	180
9	41	376
10	47	295
11	34	215
12	24	275

Required:

- a) Estimate the cost function using regression analysis. **(12 marks)**
- b) Assume that the company intends to produce 34 units. Estimate the labour cost to be incurred. **(8 marks)**

QUESTION 4

Assume that a Management Accountant of a company that makes and sells product X has made the following estimate.

Selling price (sh.)			Unit variable cost condition		
Sales demand					
Condition	Unit	Prob.		Cost	Sh.
Worst possible	45,000	0.3	Best possible	3.5	0.30
Most likely	50,000	0.6	Most likely	4.0	0.55
Best possible	55,000	0.1	Worst possible	5.5	0.15

Fixed cost = sh. 240,000

Required:

- a) Compute the expected profit. **(10 marks)**
- b) Compute the probability that the company will fail to break-even.

(10 marks)

QUESTION 5

- a) Explain the following terms:
- i) Re-order level **(2 marks)**
 - ii) Stock-out cost **(2 marks)**
 - iii) Holding costs **(2 marks)**
 - iv) Buffer stock **(2 marks)**
 - v) Ordering costs **(2 marks)**
- b) XYZ Ltd is a wholesale company that supplies tyres to garages. The demand for tyres in a given period is 50,000 units. The cost of holding a tyre in the company's warehouse is sh. 5 per tyre and the cost of placing an order is sh. 9 per tyre.
- i) Determine the optimum order size using the basic EOQ model. **(6 marks)**
 - ii) Determine the total cost incurred at optimum order size. **(4 marks)**