

**TECHNICAL UNIVERSITY OF MOMBASA**  
*SCHOOL OF BUSINESS*  
**DEPARTMENT OF ACCOUNTING AND FINANCE**  
**DEPARTMENT OF BUSINESS ADMINISTRATION**  
**DEPARTMENT OF MANAGEMENT SCIENCE**

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

**BAC 2202: MANAGEMENT ACCOUNTING 1**

**END OF SEMESTER EXAMINATIONS**

**SERIES: APRIL/MAY 2016**

**TIME: 2 HOURS**

**INSTRUCTIONS:**

- This paper consists of Sections **A** and **B**.
- Section **A** is Compulsory. Answer any **TWO** questions in Section **B**.
- Mobile phones are not allowed into examination room.
- Cheating leads to disqualification.
- This paper consists of Five printed pages.*

### Question One

- a) Explain SIX differences between management accounting and financial accounting (12 mks)
- b) The following information relates to ABC ltd.

<u>Units produced</u>	<u>Cost incurred</u>
25	3400
30	3700
35	3800
40	3950
45	4100
50	4200
55	4400
60	4450
65	4500

Required:

- i) Come up with an equation to show the relationship between units produced, fixed costs and variable costs using least squares method. (10 mks)
- ii) Show the variable cost of producing a single unit (2 mks)
- iii) Show the fixed cost of production (2 mks)
- iv) Predict the cost of producing 77 units using the equation in (i) above. (4 mks)

### Question Two

- a) XYZ ltd are specialists in the production of tyres. The following is the company's cost structure.

	Shs
Direct materials	150
Direct labour	80
Factory overhead	<u>120</u>
	<u>350</u>

It is estimated that all the factory overheads are variable. The company sells a tyre at sh. 500.

The annual fixed costs of operating the new factory are expected to be as follows:

	Shs
Rental and premises	240,000
Depreciation on plant and equipment	<u>60,000</u>
	<u>300,000</u>

Required:

- i) Calculate the break-even level of output in units and in shillings (8 mks)
- ii) Suppose the company intended to make a profit of sh 300,000, what output level in units should be attained? (7 mks)
- iii) Outline the assumptions of break-even analysis (5 mks)

### Question Three

- a) Company ABC ltd has ksh. 1,000,000 and wants to invest in any of the two available projects. The projects A or B are expected to generate the following cash flows:

Period	Project A	Project B
	Shs.	Shs
1	300,000	600,000
2	100,000	500,000
3	400,000	400,000
4	500,000	300,000
5	600,000	100,000

Required:

- i) Advise the company on which project to invest in using Pay-back period method (6mks)
- ii) Advise the company on which project to invest in using Net Present Value method, assuming that the rate of interest is 10% per annum (8 mks)
- b) Outline **three advantages** of using the payback period method (3 mks)
- c) Outline **three advantages** of using the NPV method (3 mks)

#### Question Four

The following information was extracted from the books of Kisauni Traders ltd for the year 2007

Month	Sales	Purchases
April	150,000	100,000
May	160,000	110,000
June	160,000	90,000
July	170,000	90,000
August	200,000	80,000
September	200,000	130,000
October	180,000	140,000
November	180,000	60,000
December	200,000	60,000

The following additional information is available

- Cash in hand at the end of May 2007 will be shs 180,000.
- 60% of the sales proceeds are received in the current month, 30% in the following month and the balance is received two months after sale.
- Suppliers are paid one month after delivery if goods.
- Corporation tax for 2006 amounting to shs 20,000 will be paid on 30<sup>th</sup> September 2007.
- Contractor's retention money amounting to sh 50,000 will be paid on 30<sup>th</sup> June 2007.
- The shareholders at the last AGM increased the share capital by sh 70,000 and the first call of sh 40,000 will be received in October 2007.
- In October 2007, the company is due to receive sh 20,000 as compensation for a civil suit.
- The monthly administration expenses amounting to sh 33,000 includes factory depreciation charge of sh 4,000 and preliminary expenses of sh 3,000. (Both depreciation and preliminary expenses do not involve payment of cash).
- Office equipment worth sh 13,000 will be paid for in November 2007.

Required: Prepare a cash budget for the period 1<sup>st</sup> June to 31<sup>st</sup> December 2007. (20 mks)

#### Question Five

- Explain the following terms
  - Re-order level (2 mks)
  - Holding cost (2 mks)
  - Economic order quantity (2 mks)
  - Demand (2 mks)

- v) Ordering cost (2 mks)
- b) Lunga ltd deals with sale of shoes. The cost of placing an order is shs. 2, the annual demand is 100,000 units and the carrying cost per unit is shs. 0.15  
Required: Compute the economic order quantity for the company. (10 mks)