

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 Four printed pages.*

Question One

a) Explain FIVE assumptions of break even analysis (10 mks)

b) The following are the costs incurred by ABC Ltd at different levels of output.

Units of output	Cost
20	180
25	220
30	255
35	275
40	295
45	320
50	360
55	400

(i) Calculate the linear equation showing the relationship between production and cost (8 mks)

(ii) What is the variable cost? (3 mks)

(iii) What is the fixed cost of production? (3 mks)

(iv) What is the cost of producing 72 units? (6 mks)

Question Two

Company XYZ contemplates on investing in any of 2 different projects which have an initial investment of ksh 1,000,000. The investments are expected to yield the following cash inflows over the next five years. The required rate of return is 10%.

Year	Project A	Project B
	Ksh	Ksh
1	325,000	300,000
2	290,000	300,000
3	255,000	250,000
4	200,000	270,000
5	220,000	210,000

a) Using Pay-Back period method, advice the company on which project to invest in. (7 mks)

- b) Using Net Present Value method, advice the company on which project to invest in. (9mks)
- c) What are the merits of NPV method? (4 mks)

Question Three

a) Kisauni ltd deals with sale of Soles. The cost of placing an order is shs. 5, the annual demand is 300,000 units and the carrying cost per unit is shs. 0.25

Required: Compute the economic order quantity for the company. (10 mks)

b) Define the following terms

- i) Economic order quantity (2mks)
- ii) Re-order level (2mks)
- iii) Demand (2mks)
- iv) Carrying cost (2mks)
- v) Ordering cost (2mks)

Question Four

Majengo ltd produces two products namely X and Y. The company uses two materials A and B in the manufacture of these products. The following information is given for the year 2015

Budgeted sales

<u>Product</u>	<u>Quantity</u>	<u>Price</u>
X	20,000	80
Y	16,000	60

Materials used

	A	B
	Ksh	Ksh
Unit cost	10	16
<u>Quantities used</u>		
X	10	6
Y	8	8

There were no stocks at the beginning of the year. Stocks at the end of the year are expected to be:

X 2,000 units:

Y 1,000 units

Required:

- i) Prepare a sales budget (5 mks)
- ii) Production Budget (5 mks)
- iii) Materials usage in quantities budget (5 mks)
- iv) Material purchase in quantity and value (5 mks)

Question Five

Afritec Engineering manufactures a single product Q for sale on the local and international market. The current sales for the company amounts to Shs 800,000. The cost structure for one unit of product Q is as follows:

Direct Materials

Material A - 6Kg at Shs 7.50 per Kg.

Material B - 5Kg at Shs 5 per Kg.

Direct labour – 2hours at Shs 25 per hour.

Variable overheads (including machine time) – Shs 40 per unit.

Fixed overheads – Shs 240,000. The company sold 4000 units of Q during the year.

Required:

- i) Sales price per unit (3 mks)
- ii) Current profit or loss (3mks)
- iii) Break-Even Point in Units (5 mks)
- iv) Break-Even Point in shillings (4 mks)
- v) What Five measures can be used to improve the current profit position? (5 mks)