



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

BACHELOR OF TECHNOLOGY IN MECHANICAL ENGINEERING

BFI 4204 : ECONOMICS & ACCOUNTING

END OF SEMESTER EXAMINATION

SERIES: APRIL 2017

TIME: 2 HOURS

DATE: Pick Date Apr 2017

Instructions to Candidates

You should have the following for this examination

-Answer Booklet, examination pass and student ID

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

Do not write on the question paper.

QUESTION ONE (COMPULSORY)

i) The following data relates to material Q3 as used by section II Ltd

- Annual consumption = 800,000 Units
- Order Costs = shs 4,000
- Price per Unit = shs 80
- Annual carrying cost = 5% of inventory value

Currently, the company has a policy of purchasing 80,000 units per order, but they intend to change the policy so as to purchase EOQ.

Required

Calculate the annual cost savings which the company can realize if they change the policy **(10 Marks)**

- ii) Distinguish between cost allocation and cost absorption **(4 Marks)**
- iii) Distinguish between flexible and fixed budget **(6 Marks)**
- iv) Enumerate the main objectives of introduction of a cost accounting system in a manufacturing organization **(4 Marks)**
- v) Write short notes on the following **(6 Marks)**
- Conversion cost
 - Sunk cost
 - Opportunity cost

QUESTION TWO

The following cash flows relates to the projects being undertaken by Viwandani ltd

Year	Project A	Project B
1	850,000	2,150,000
2	2,150,000	2,450,000
3	1,950,000	3,200,000
4	3,400,000	1,950,000
5	2,850,000	2,450,000
6	2,550,000	2,350,000

The projects initial investment cost is 7,200,000 and 8,000,000 respectively. The firms cost of capital is 14%

Required

- a) Compute the projects IRR **(12 Marks)**
- b) What are the advantages and disadvantages of payback period **(4 Marks)**
- c) List the advantages and disadvantages of IRR **(4 Marks)**

QUESTION THREE

- a) Compute the present value of each of the following cash flows using a discount rate of 18 percent
- i) Shs 6,500,000 cash out-flow now **(3 Marks)**
 - ii) Shs 200,000 cash in-flow ten years from now **(3 Marks)**
 - iii) Shs 100,000 cash in-flow at the end of each of the next six years **(2 Marks)**
 - iv) Shs 150,000 cash out-flow at the beginning of each of the next five years **(2 Marks)**
- b) Give reasons why the existence of monopolies may be beneficial to any economy **(5 Marks)**
- c) Identify the characteristics of a perfectly competitive market structure **(5 Marks)**

QUESTION FOUR

- a) Discuss the main causes of inflation in developing countries **(5 Marks)**
- b) Suggest appropriate measures the government can implement to combat inflation on a country **(5 Marks)**
- c) Briefly explain the effects of inflation on the following; **(10 marks)**
- Consumers
 - Creditors
 - Saving
 - Producers
 - Imports

QUESTION FIVE

Culvyhouse Company uses an actual product costing system. It reported the following amounts for 2003

Raw materials purchased	72,000	Beginning work-in-process inventory	21,000
Direct materials used	70,000	Ending work-in-process inventory	16,000
Indirect materials used	4,000	Selling and administrative expenses incurred	23,000
Direct labor used	66,000	Other manufacturing overhead costs incurred	18,000
Indirect direct labor used	7,000	Beginning finished goods inventory	6,000
		Ending finished goods inventory	9,000

- i) Calculate the following;
 - a) Cost of goods manufactured **(5 Marks)**
 - b) Cost of goods sold **(5 Marks)**
- ii) What is demand estimation **(2 Marks)**
- iii) Distinguish between job costing and process costing **(8 Marks)**