TECHNICAL UNIVERSITY OF MOMBASA

School of Business & Social Studies

DEPARTMENT OF ACCOUNTING AND FINANCE

UNIVERSITY EXAMINATIONS FOR DEGREE IN

MASTERS OF BUSINESS ADMINISTRATION
MASTERS OF SCIENCE IN HUMAN RESOURCES MANAGEMENT
MASTERS OF SCIENCE IN PROCUREMENT AND SUPPLY CHAIN MANAGEMENT
MASTERS OF SCIENCE IN FINANCE

BAC 5102: MANEGERIAL ACCOUNTING

SPECIAL/SUPPLEMENTARY EXAMINATION
SERIES: SEPTEMBER 2018
TIME: 3 HOURS

INSTRUCTIONS:
Answer Question **ONE (Compulsory)** and any other **TWO** questions
This paper consists of Three printed pages

QUESTION ONE (Compulsory)

Beirut Ltd manufactures a chemical product called BRT. The company operates a first-in-time production system, so no stocks of any kind are held. In December of last year the company prepared a budget for the 1st quarter of 2013. The budget that sales for the quarter would be 5,000 units of BRT and that the contribution per unit would be as follow:

	Sh.	Sh.
Selling price per unit of BRT		70
Direct labour 92 hrs @ sh. 11 per hour	22	
Direct materials (4kgs @ sh. 5 per kg)	20	
Total variable cost per unit of BRT		42
Contribution per unit of BRT		28

The actual outcome for the 1st quarter of 2013 different from the budget in a number of respects:

- Actual sales were 6,000 units of BRT at a price of sh. 70 @
- The total amount of direct wages paid was sh. 124,550. This was in respect of 10,600 labour hours.
- A total of 23,100 kgs of direct materials were purchased at a price of sh. 6.20 per kg

Required:

a) Using variance analysis to reconcile the budgeted and actual total contributing for the 1st quarter of 2013. (6 marks)

b) Assume that the budgeted for material consumption was erroneous. The right quantity should have been 3.8kgs per unit at a cost of sh. 6 @. Using this information calculate direct material variances. (8 marks)

c) Explain the reasons for preparing a variance analysis. (6 marks)

QUESTION TWO

Mbuka ltd manufactures a water sealant at the Mombasa County. The sealant is used to stop leaks in basement retainer wall. In 2006 the company sold in basement retainer wall. In 2006, the company sold 1,600,000 gallons at sh.30 per gallon whose variable production costs more sh 15. The fixed manufacturing of costs were sh.1,550,000. In 2007, new automated equipment was used in production which increased fixed manufacturing costs for the gallon was reduced by sh.2. The sales value increased by 12.5% in 2007. The board of directors has asked your determine the effects of these changes on the company's profit after tax the tax rate was 40%.

Required:

a) Income statement for manufacturing operations for both 2004 and 2005. (4 marks)

b) For 2004 compute the break-even point in gallons & reviews. (2marks)

c) For 2005, compute the break-even point in gallons & renews. (2marks)

Using the cost & revenue data for 2004, consider each of the following situations independently.

d) What effect on the break-even point in gallons for the decrease of variable cost by sh.2.00 (6 Marks)

e) What is the effect on the break-even point in gallons for the increase in fixed cost of by sh.235,000 (6 Marks)

QUESTION THREE

a) Management accounting is concerned with the provision and interpretation of the information required by management at all levels. Explain the purposes of management accounting. (5 Marks)

b) State and explain the decision making process. (7 Marks)

c) Using an illustration, explain the three (3) main risk attitudes that distinguish different decision makers. (6 Marks)

QUESTION FOUR

Ludo Limited manufactures a specialised storage accessory for automobiles called 'the Storax', which is a type of pocket which can be easily fixed in the boot of any vehicle. The company has been in operation for two years and, now that the production process has been established and refined, the directors have decided to focus on the income and costs arising from activities. The managing director has recently read an article about product costing and, in particular, absorption and variable costing and is keen to understand how this would affect company profits. The following information is available for the months of July and August:

	July	**August**
Production (units)	13,000	15,000
Sales (units)	12,000	16,000
Direct materials	Ksh 29,250	Ksh33,750
Direct labour	Ksh 19,500	Ksh 22,500
Variable production overheads	Ksh 7,800	Ksh 9,000
Total selling and administrative expenses	Ksh 45,200	Ksh 57,600

Additional information:

1. For Ludo Limited normal production capacity is 15,000 units per month.
2. Fixed production overheads are €29,400 per month.
3. The company sells 'the Storax' for €20 each.

4. Total selling and administrative expenses includes a fixed and variable element. The variable portion is incurred based on units sold.
5. At 30 June the company had no ‘Storax’ accessories in its warehouse.

Required

a) Prepare profit statements for Ludo Limited for the months of July and August using:
   i). Absorption costing
   ii). Variable costing (18 Marks)

b) Reconcile the profit calculated using Absorption costing to that calculated using Variable costing. (2 Marks)

QUESTION FIVE

Last year, James Moody established a gourmet food business and to date has achieved good sales and a small profit. While attending a recent business networking event, James was advised to consider employing a management accountant to enhance and improve his business. James has asked you for advice. He would like to understand why management accounting has become so important to achieving business success and how it differs from financial accounting. James is also keen to know how employing a management accountant could improve his business.

Required:

Prepare a briefing note for James Moody which:

a) Outlines the changes in the business environment that have contributed to the growth and importance of management accounting. (6 marks)

b) Differentiates between financial accounting and management accounting. (4 marks)

c) Describes how the employment of a management accountant could enhance and improve a business. (9 marks)