TECHNICAL UNIVERSITY OF MOMBASA

School of Business

DEPARTMENT OF ACCOUNTING AND FINANCE

UNIVERSITY EXAMINATIONS FOR DEGREE IN MASTERS IN BUSINESS ADMINISTRATION

BAC 5102: MANAGEMENT ACCOUNTING

SUPPLIMENTARY EXAMINATIONS

SERIES: APRIL 2022

TIME: 3 HOURS

INSTRUCTIONS:

Answer Question **ONE (Compulsory)** and any other **THREE** questions

This paper consists of Four printed pages

Question One

ABC Ltd. makes two types of polish – one for floor and one for cars. It sells both types to industrial users only, in one litre containers. The specifications for the two products per patch of 100 litres are:

Materials	Floor Polish	Car Polish
Delta	120 litres	100 litres
Gamma	20 kg	10 kg
Containers – Cost per 100 ltrs.	100	100
Direct labour		
Manufacturing	12 man-hours	16 man-hours
Primary Packing	5 man-hours	5 man-hours

During the six months to end of 30th September the company expects to sell 15,000 litres of floor polish at sh. 9 per litre and 25,000 litres of car polish at sh. 7 per litres. Materials are expected to cost sh. 1 a litre for Delta and sh. 8 a kg. for Gamma.

Manufacturing wages in the industry look like being stable at ` 6 per hour and packing wages at sh.4 per hour throughout the period.

Flexible overhead expenses budgets are operated for manufacturing and packing departments based on the number of man-hours worked. These budgets for six months to end of September are:

Manufacturing Department		Primary Packing Department	
5,000 man-hour	sh. 40,000	1,700 man-hour	sh. 26,000
6,000 man-hour	50,000	1,900 man-hour	28,000
7,000 man-hour	60,000	2,100 man-hour	30,000
8,000 man-hour	80,000	2,300 man-hour	32,000

General administration overhead are budgeted at ` 37,000. At the beginning of the period 1st April packed stocks will be :

Floor Polish 2,000 litres

Car Polish 3,000 litres

By end of the period 30th September, it is desired to maintain the packed stocks of the two products at 3,000 litres and 4,000 litres respectively.

Required:

i. A statement of the standard prime cost per 100 litres of each product. (5 marks)

ii. A sales and production budget (in quantities) for the six months to 30th September. (10 marks)

iii. A profit forecast for the period. Show separate gross profit for the two products but do not attempt to allocate overheads between them. No overheads are included in stock valuation. (5 marks)

(b) Briefly describe the weaknesses of Cost volume profit Analysis as a profit planning tool. (10 marks)

Question Two

(a) (i) What is the impact of target costing on profitability? (5 marks)

(ii) What are the advantages of target costing? (5 marks)

(b) What are the costs of non-conformance? (10 marks)

Question Three

(a) SSK manufactures and sells four types of products under the brand names A, B, C and D. The sales-mix in value comprises 33%, 42 %, 17 % and 8 % of A, B, C and D respectively. The total budgeted sales (100%) are sh. 60,000 per month. Operating costs are:

Variable costs: Product: A 60% of selling price; B 68% of selling price; C 80% of selling price; D 40% of selling price;(a) and Fixed cost sh. 14,700 per month.

Required:

Calculate the break-even point for the products on an overall basis. (10 marks)

(B) It has been proposed to introduce a change in the sales mix as follows, the total sales per month remaining sh. 60,000: Product A 25%, B 40%, C 30%, D 5%

Required:

Assuming that the proposal is implemented, calculate the break-even point (10 marks)

Question Four

The production manager of XYZ Company, is concerned about the apparent fluctuation in efficiency and wants to determine how advertisement costs (in Sh.) are related to sales volume. The following data presents results of the 12 most recent weeks.

Week No.	Advert. expenses(X)	Sales volume(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 Advertisement function using:

(i) The high low method (5 marks)

(ii) Regression analysis (5 marks)

(b) Assume that the Company intends to make sales of spend sh. 450 in the next period Estimate how much the company should spend on Advertisement. (hint use regression analysis (10 marks)

Question Five

Assume that ABC Ltd produces two products, product A and B and the following budget has been prepared.

	PRODUCTS		
	A	B	Total
Sales in Units	120,000	40,000	160,000
	Sh.	Sh.	Sh.
Sales @ 5.00, 10.00	600,000	400,000	1,000,000
Variable Costs @ 4.00, 3.00	480,000	120,000	600,000
Contribution @ 1.00, 7.00	200,000	280,000	400,000
Total Fixed cost			300,00
Profit			100,000

Required:

a) Compute the break-even point in total and for each of the products. (10 marks)

b) The company proposes to change the sales mix in units to 1:1 for products A and B. Advice the Co. on whether this change is desirable. (10, marks)