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TECHNICAL UNIVERSITY OF MOMBASA

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SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

**UNIVERSITY EXAMINATION FOR:**

BACHELOR OF COMMERCE/BACHELOR OF BUSINESS ADMINISTRATION

BAC 4407 ISSUES IN MANAGEMENT ACCOUNTING

SPECIAL AND SUPPLEMENTARY EXAMINATION

**SERIES:** November, 2024

**TIME:** 2 HOURS

**DATE:** Pick Date Select Month Pick Year

**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.**

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**Question ONE**

Lamu chemical industry mixes powdered ingredients in two different processes to produce one product. The output of Process 1 becomes the input of Process 2 and the output of Process 2 is transferred to the packing department.

Process 1 Input:

Material A 6,000 kilograms at shs 1 per kilogram

Material B 4,000 kilograms at shs 2 per kilogram

Mixing Labour 430 hours at shs 4 per hour



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Normal Loss 5% of weight input, disposed off at 32 paise per kilogram Output 9,200 kilograms.

No work in process at the beginning or end of the week.

Process 2 Input :

Material C 6,600 kilograms at shs 2.50 per kilogram

Material D 4,200 kilograms at Re. 1.50 per kilogram

Flavouring Essence shs 600

Mixing Labour 370 hours at shs 4 per hour

Normal Waste 5% of weight input with no disposal value

Output 18,000 kilograms.

No work in process at the beginning of the week but 1,000 kilograms in process at the end of the week and estimated to be only 50% complete so far as labour and overhead were concerned. Overhead of shs 6,400 incurred by the two processes to be absorbed on the basis of mixing labour hours.

Required open accounts for

- a) Process 1 (5marks)
- b) Process 2 (5marks)
- c) Abnormal loss (5marks)
- d) packing department and to record the transactions for the week ended 11th June, 2024. (5marks)
- e) Briefly explain the implementation problems often experienced when ABC is first introduced. (10 marks)

## Question TWO

Asali Food Products is a new entrant in the market for chocolates. It has introduced a new product "Sweets". This is a small rectangular chocolate bar. The bars are wrapped in aluminium foil and packed in attractive cartons containing 50 bars. A carton is, therefore, considered the basic sales unit. Although management had made detailed estimates of costs and volumes prior to undertaking this venture, new projections based on actual cost experience are now required.

Income statements for the last two quarters are each thought to be representative of the costs and productive efficiency we can expect in the next few quarters. There were virtually



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no inventories on hand at the end of each quarter. The income statements reveal the following :

	shs	First Quarter	Second Quarter
Sales 50,000 × shs 24		12,00,000	-
70,000 × shs 24		-	16,80,000
Less : Cost of Goods Sold		<u>7,00,000</u>	<u>8,80,000</u>
Gross margin		5,00,000	8,00,000
Less : Selling and Administration		<u>6,50,000</u>	<u>6,90,000</u>
Net income (loss) before taxes		(1,50,000)	1,10,000
Less : Tax (negative)		<u>60,000</u>	<u>44,000</u>
Net income (Loss)		(90,000)	66,000

The firm's overall marginal and average income tax rate is 40%. This 40% figure has been used to estimate the tax liability arising from the chocolate operations.

Required :

- Management would like to know the break-even point in terms of quarterly carton sales for the chocolates. (8marks)
- Management estimates that there is an investment of shs 30,00,000 in this product line. What quarterly carton sales and total revenue are required in each quarter to earn an after-tax return of 20% per annum on investment? (8marks)
- The firm's marketing people predict that if the selling price is reduced by shs 1.50 per carton ( shs 0.03 off per chocolate bar) and a shs 1,50,0000 advertising campaign among school children is mounted, sales will increase by 20% over the second quarter sales. Should the plan be implemented? (6marks)

### Question THREE

Moto Ltd manufactures electrical units. All units are identical. The following information relates to June and July 2024.

(a) Budgeted costs and selling prices were:

	shs	shs
Variable manufacturing cost per unit	2.00	2.20



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Total fixed manufacturing costs (based on budgeted output of 25,000 units per month)	40,000	44,000
Total fixed marketing cost (based on budgeted sales of 25,000 units per month)	14,000	15,400
Selling price per unit	5	5.5
(b) Actual production and sales recorded were:		
	Units	Units
Production	24,000	24,000
Sales	21,000	26,500

There was no stock of finished goods at the start of June Year 5. There was no wastage or loss of finished goods during either June or July Year 5.

Actual costs incurred corresponded to those budgeted for each month.

Required

Calculate the relative effects on the monthly operating profits of applying:

- a) absorption costing; (10marks)
- b) marginal costing. (10marks)

#### Question FOUR

Chumani Co produces 3 products, Korosho, Bimbo and Kanju all in the same factory, details of which are shown below:

	Korosho	Bimbo	Kanju
	shs	shs	shs
Selling price per unit	120	110	130
Direct material cost per unit	60	70	85
Maximum demand per (unit(	30000	25000	40000
Time required on the bottleneck (hours per unit)	5	4	3

There are 320,000 bottleneck hours available each month.

- a) **Required:** Calculate the optimum product mix each month (10marks)



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- b) Is "Just-In-Time" a philosophy or just a collection of techniques? Explain  
(10marks)

**Question FIVE**

- a) Discuss the Benefits of benchmarking accounting (10marks)  
b) Explain how activity-based costing and a two-stage product system are related  
(10marks)

