



# TECHNICAL UNIVERSITY OF MOMBASA

*Faculty of Business & Social Studies*

DEPARTMENT OF BUSINESS STUDIES

DIPLOMA IN ACCOUNTANCY I

**BAC 2110: MANAGEMENT ACCOUNTING I**

END OF SEMESTER EXAMINATIONS

**SERIES:** AUGUST 2013

**TIME:** 2 HOURS

**INSTRUCTIONS:**

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

***This paper consists of Three printed pages.***

## QUESTION 1 (Compulsory)

- a) Explain what you understand by the term cost behavior: **(3marks)**  
b) Explain why cost behavior is important in the context of management accounting. **(3marks)**  
c) Describe cost behaviors patterns which may be encountered. **(6marks)**  
d) The management of Swabr LTD has considered replacing all of the production equipment in the factory. Two types of Machines have been considered, the high speed and the low speed. Both the machines have the capacity to meet all future levels of manufacture. If either type of machine were installed, the estimated selling price and costs would be as follows;

	High speed	low speed
Per unit		
Selling price	50	50
Variable cost	20	35
Fixed costs ( per annum)	210,000	90,000

Required:

- i) Break even point in units **(6marks)**  
ii) Profit at 8000 units of production **(6marks)**  
iii) Advise Swabra LTD on which machine to purchase where demand for the product is expected to show:  
- An increase in future **(3marks)**  
- A decrease in future **(3marks)**  
iv) If a profit of 30,000 is required from the High-speed machine, what should be the sales value? **(2marks)**

## QUESTION 2

**A company specializes in the assembly of helicopters. With rising costs of spares, the company expects that more people are likely to change their mode of transport by abandoning motor – vehicles in favour of the newly introduced helicopters.**

**The company's palnning manager has informed you that the selling price per helicopter is 1200 and the standard costs are as follows:**

<b>Direct material</b>	<b>600</b>
<b>Direct labour</b>	<b>200</b>
<b>Variable overhead</b>	<b>80</b>
<b>Total fixed overheads</b>	<b>360,000(per year)</b>

**The annual output is 3000 helicopters at a production capacity of 75%**

**Required**

- a) Budgeted profit at 75% capacity **(71/2)**  
b) Flexible budget at 90% capacity **(71/2)**  
c) The financial account has computed the full cost of one helicopter as follows:  
Direct material 600  
Direct labour 200  
Variable overhead 80  
Fixed overhead 120

Full cost

1000

An offer at \$ 890 has been received from a foreign supplier. The financial accountant says the offer is below cost price of \$ 100 and should be rejected.

State whether the company should accept the offer or not.

(5marks)

### QUESTION 3

- a) A company is reviewing its stock control policy with regard to material x. the cost of making one order is \$100; the cost of holding one kilo for one year is \$ 0.25 and the annual demand for material x is 80000 kilos. There is no lead time nor buffer stock.

Required

- i) The economic order quantity, briefly explaining what this figure represents. (8marks)
- ii) The number of order to be made per year. (4marks)
- iii) Explain what you understand by the terms 'buffer stock' and 'lead time' and briefly consider any stock policy that would minimize or eliminate such stock costs. (8marks)

### QUESTION 4

Outline the objectives of budgetary planning and control systems.

(2marks)

### QUESTION 5

- a) **A company manufacture a product. For the accounting period the total cost are \$ 1050 when the output is 20 units and \$ 1850 when the output is 40 units. Assuming linearity ,find an expression for total costs in terms of the quality of output.**  
(8marks)
- b) **Distinguish between financial accountitng and management accounting.**  
(12marks)