



(The University of Choice)

**MASINDE MULIRO UNIVERSITY OF
SCIENCE AND TECHNOLOGY
(MMUST)**

KISUMU CAMPUS

**EXAMINATIONS
2015/2016 ACADEMIC YEAR**

FIRST YEAR SECOND SEMESTER EXAMINATIONS

**FOR DIPLOMA
IN
BUSINESS MANAGEMENT**

COURSE CODE: DAB 104

COURSE TITLE: MANAGEMENT ACCOUNTING

DATE: SEPTEMBER 2016 TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES

Answer question **One** and any other **Two** questions

Section A

Question One

Blenders Limited produces a chemical compound by processing two raw materials through a single stage process.

Standard cost for processing 100 gallons of finished output have been calculated as follows:

	Shs
Input of material X (55 gallons at sh 0.2)	11.00
Input of material Y (55 gallons at sh 0.1)	5.50
Direct wages (2 hours at sh 3)	<u>6.00</u>
	<u>22.50</u>

The following details relate to the recent month when 50,000 gallons were produced:

	Shs
Input of material X (input 24,000 gallons at sh 0.22)	5,280
Input of material Y (input 28,000 gallons at sh 0.09)	2,520
Direct wages (900 hours at sh 3.5)	<u>3,150</u>
	<u>10,950</u>

Required:

- (a) Total Cost Variance analyzed into Material and Labour Cost Variances (5 marks)
- (b) Material Price Variance for X and Y (2 marks)
- (c) Material Usage Variances for X and Y (2 marks)
- (d) Labour Rate Variance (2 marks)
- (e) Labour Efficiency Variance (2 marks)

- (f) Explain the possible causes of material price and usage variances computed in (a) and (b) above (5 marks)
- (g) Explain the possible causes of labour variances above (2 marks)

Question Two

Beta Limited had the following cost data extracted from its records for the year 2015 for the manufacture of product R. The selling price of one unit of R is sh.500

<u>Output level (Units)</u>	<u>Costs (Shs)</u>
1,000	600,000
1,500	750,000

Required: From the above data using High-Low method of cost analysis,

- (a) Compute the variable cost per unit of Product R (3 marks)
- (b) The fixed cost of Beta Limited (3 marks)
- (c) Determine and express the linear equation of the cost of Beta Limited in the form of $y = mx + c$ (4 marks)
- (d) Using the above equation, determine the total cost at production levels of 1,200 units and 1,800 units of output (4 marks)
- (e) Calculate the break-even point in units (2 marks)
- (f) Applying the break-even and contribution approach, calculate the profit/loss at 1,000 units, 1,200 units, 1,500 units and 1,800 units respectively (4 marks)

Section B

Question Three

(a) Briefly explain the meaning of stock holding costs and ordering costs showing their relevance in developing the Economic Order Quantity (EOQ) Model. (10 marks)

(b) Tarda Limited uses a special bracket in the manufacture of its products which it orders from outside suppliers. The appropriate data are:

Demand = 2,000 per annum

Ordering cost = Sh 20 per order

Carrying/holding cost = 20% of item price

Basic item price = Sh 10 per bracket

Required:

Calculate the Economic Order Quantity for the company (10 marks)

Question Four

XYZ Company Limited is considering investing in Project A and Project B. The cash flows of the two projects for the four year period are as follows:

Period in Years	Project A	Project B
	Shs	Shs
0	(1,000,000)	(1,000,000)
1	50,000	550,000
2	200,000	550,000
3	1,000,000	100,000
4	100,000	150,000

The company's cost of capital is 10% per annum.

Required:

- Calculate the payback period in years of Project A and B (5 marks)
- Calculate the Net Present Values of Project A and B (5 marks)
- Evaluate the two projects using both the payback period and the net present value approaches in project evaluation (4 marks)
- Compare and contrast the payback period and net present value approaches in project evaluation (6 marks)

Question Five

Conrad Limited had a cash balance of sh10,000 on 30th September 2016. The sales, purchases, wages and overheads budget were as follows:

Month	Sales	Purchase	Wages	Overheads
	Sh	Sh	Sh	Sh
August	80,000	50,000	15,000	20,000
September	90,000	60,000	15,000	20,000
October	75,000	55,000	15,000	20,000
November	75,000	45,000	15,000	20,000
December	80,000	55,000	15,000	20,000

Additional information:

- (i) All sales are on credit and debtors settle 60% within the month of sales, 25% in the following month while 15% in the second month after sale.
- (ii) All purchases are on credit and 90% are settled in the month of purchase while the balance in the month after.
- (iii) Wages are settled monthly.
- (iv) Overheads includes depreciation of sh 5,000 per month are settled monthly.
- (v) Taxation of sh 8,000 has to be settled in November.
- (vi) The company will receive settlement of an insurance claim of sh 25,000 in December

Required:

Prepare for Conrad Limited a cash budget for the months of October, November and December. (20 marks)

Question Six

“Budgeting and budgetary control plays an important role in effective resource utilization, control and performance evaluation”.

- (a) Explain the meaning of the term “responsibility accounting” (5 marks)
- (b) What is the major aim of budgetary control? (5 marks)
- (c) List and briefly explain the benefits of budgeting to an organization. (10 marks)

Question Seven

“Standard costing aid management in planning, controlling and measuring the deviations of actual performance”.

- (a) Explain briefly what is meant by the term standard costing? (4 marks)
- (b) List and explain the four main types of standards. (8 marks)
- (c) Explain how standard costing is used in monitoring and evaluating the performance of an organization. (4 marks)
- (d) List the advantages of standard costing (4 marks)