



MACHAKOS UNIVERSITY

University Examinations for 2016/2017 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT
SCIENCES

SECOND YEAR FIRST SEMESTER EXAMINATION FOR DIPLOMA IN SUPPLIES
MANAGEMENT

BAC 031: COST AND MANAGEMENT ACCOUNTING

DATE: 29/11/2016

TIME: 2:00 – 4:00 PM

INSTRUCTIONS.

Answer Question One and Any Other Two Questions

- 1 (a) Explain four advantages of using Net Present Value(NPV)method in evaluating projects. (8 marks)
- (b) Jino limited manufactures two products;A and B.the company uses two materials ,X and Y,in the manufacture of these products.The following data relates to the company for the year 2017;

(i) Budgeted sales

Product	Quantity(units)	price (ksh)
A	8000	90
B	7,000	100

(ii) Material cost

X	y
Ksh	ksh

	Unit cost	12	13
(iii)	material requirement		
		A	B
	X (units)	2	4
	Y (units)	6	7
(iii)	Finished good stocks		
		A	B
	Beginning	450	350
	End	800	420

Prepare a

(i) Sales budget

(ii) Production units budget

Material usage budget (12 marks)

(c) Discuss four differences between management accounting and financial accounting (8 marks)

QUESTION TWO (20 MARKS)

(a) Explain **four** advantages of using standard costing (8 marks)

(b) Mwema intends to invest ksh 2000,000 in either project A or B. The following are the projected cashflows;

Year	Project A	Project B
	Ksh	ksh
1	800,000	600,000
2	700,000	900,000
3	800,000	900,000
4	800,000	700,000

The cost of capital is 20%

- (i) Calculate the profitability index of each project
- (ii) Using (i) above advise Mwema on the project to invest in. (12 marks)

QUESTION THREE (20 MARKS)

Koma Limited manufactures and sales a single product. The following are the results for the month of May 2015

	Ksh '000'
Sales	1800
Costs (75% Fixed)	1200
Profit	600

The selling price per unit was kshs 120

- i) calculate
 - a) The number of units to be produced and sold to break even.
 - b) The number of units to be sold in order to realize profit of kshs 84,000
- ii) The management is considering two alternative actions
 - a) Increasing selling price by kshs 30 per unit

b) Or reduce variable costs by kshs 5.00 per unit. Advise the management on the best alternative (12 marks)

[b] Why might management decide to produce a product internally at higher cost than to buy the same product in the open market. (8 marks)

QUESTION FOUR (20 MARKS)

Maggot limited prepares this budget on four months basis.

The following is the budget for the four months ending 31st December 2015

Purchase Of				
Month	Raw Materials	Sales	Salaries	Overhead
	Kshs	Kshs	Ksh	Kshs
September	4000,000	5,900,000	132,000	180,000
October	4,500,000	5,800,000	145,000	160,000
November	4,200,000	5,000,000	136,000	167,000
December	4,800,000	600,000	140,000	180,000

Additional information

80% of sales are in cash the balance on credit will be received the following month

Salaries and overheads are paid in the month they are incurred.

Raw materials are paid for the following month after purchase.

A piece of land will be purchased for Shs 4,200,000 in October but payment will be made in November.

Tax amounting to Kshs 48,000 will be paid in December

Cash balance on October is expected to be kshs 120,000

Furniture worth kshs 60,000 will be sold in October for cash.

- i) Prepare a cash budget on monthly basis for the last quarter of the year 2015 (12 marks)
- ii) Discuss four types of standards. (8 marks)

QUESTION FIVE (20 MARKS)

X Y Z Ltd furnishes you with the following income information.

	YEAR 2004	
	FIRST HALF	SECOND HALF
SALES	810,000	1,026,000
PROFIT EARNED	21,600	64,800

From the above you are required to complete the following assuming that the fixed cost remains the in both periods.

- a) profit /volume ratio
- b) Fixed cost.
- c) The amount of profit or loss where sales are 648,000
- d) The amount of sales required to earn a profit of 108,000

(12 marks)

- e) Discuss the limitation of budgetary control

(8 marks)