MACHAKOS UNIVERSITY COLLEGE

(A Constituent College of Kenyatta University)
University Examinations for 2015/2016 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCES

SECOND SEMESTER EXAMINATION FOR DIPLOMA IN PROCUREMENT AND SUPPLY CHAIN MANAGEMENT

DPS 113: COST AND MANAGEMENT ACCOUNTING

Date: 3/12/2015 **Time: 2:00 – 4:00 PM**

INSTRUCTIONS

- **Answer QUESTION ONE and any other TWO**
- **Show all your workings**
- **Untidy work will be penalised**
- **Strictly adhere to examination regulations**

QUESTION ONE (30MARKS) (COMPULSORY)

a) Explain five differences between Managerial Accounting and Financial Accounting.(5Marks)

b) The managerial Accountants' role is to provide information to managers for decision making and planning. Explain five characteristics this information should posses in order to effectively aid managers in planning and decision making. (5 Marks).

c) The following information shows the cost of production and level of activity for a period of five months in the year 2010.

Month	Activity	Total Cost (Ksh.'000')
January	500	1,100
February	700	1,750
March	650	2,150
April	900	2,050
May	850	2,350

Using High - Low method, determine:

i. Variable cost per unit (4Marks)
ii. Fixed cost per month (4Marks)
iii. Costs for November 2010 if 950 units will to be produced (2 Marks)

d) With the aid of a diagram, identify and explain types of costs classified on the basis of behaviour in relation to activity. (5Marks)

e) XYZ Company Ltd produces a single product for the local market. The estimated costs per unit based on 8,000 units are as follows:

	Ksh.
Direct Materials	3,000
Direct labour	2,000
Indirect Manufacturing Cost:	
Fixed	4,000
Variable	10,000

The selling price of the product in the domestic market is Ksh.18,000 each. An overseas customer has offered to pay Ksh.9,000 each for 2,000 units. The customer will meet the selling and transport cost. The president of the company rejected the special order on the ground that the overseas customer's price is too low. Do you support the president's position regarding the special order? Explain. (5marks)

QUESTION TWO

a) Savannah Enterprises manufactured and sold 60,000 units of product X during the year 2013 at an average price of Ksh.200 per unit. Variable manufacturing costs were Ksh.80 per unit, and variable marketing costs were Ksh.40 per unit sold. Fixed costs amounted to Ksh.1,800,000 for manufacturing and Ksh.720,000 for marketing.

Required:

i. Compute Savannah's break-even point in shillings for 2013.
ii. Determine the number of sales units required to earn a net profit of Ksh.1,800,000.
iii. Savannah's variable manufacturing costs are expected to increase by 10% in the coming year. Calculate the firm's break-even point in shillings and the selling price that would yield the same Contribution – Margin ratio for the coming period.

(12marks)

b) The table below shows output of a factory and costs of production over five month period.

Month	Activity (units'000')	Cost of production (Ksh.'000')
July	20	164
August	16	140
September	24	180
October	22	170
November	18	146

Determine:

i. The linear regression line of cost on activity
ii. The cost of production when the level of activity is 25,000 units. (8Marks)

QUESTION THREE

a) The following information relates to Migs Enterprises sales revenue.

	November 2014 (Actual)	December 2014 (Budgeted)	January 2015 (Budgeted)
Cash sales	Ksh.80,000	100,000	60,000
Credit Sales	Ksh.240,000	360,000	180,000
	Ksh.320,000	**460,000**	**240,000**

Management of Migs Enterprises have estimated that 5% of credit sales are uncollectible. Of the credit sales that are collectible 60% are collected in the month of sale and the remainder in the month following the sale. Purchases of the inventory are equal to next month's sales. And gross profit margin is 30% of sales. All of inventory is on account; 25% are paid in the month of purchase and the remainder are paid in the next month following the purchase.

Compute:

i. Migs enterprises budgeted cash collections in December 2014 from November credit sales.
ii. Budgeted total sales receipt in January 2015
iii. The amount of Migs budgeted total Cash payments in December 2014 for inventory purchases. (12Marks)

b) During the month of July 2008 FBC Ltd. Manufactured 500 units of product Y. The standard Prime Costs for one unit of Y are as follows:

	Ksh.
Direct Material: 20Kg at Ksh.135	2,700
Direct Labour: 4 hours at Ksh.900	3,600
Total Prime Cost per unit of output	**6,300**

The following information is also available from Y production department for July

	Ksh.
Direct Material purchased: 18,000Kg	248,400
Direct Material used	131,100
Direct Labour: 2,100 hours	192.150

Compute the following variances for the month of July indicating whether each variance is favourable or unfavourable.

i. Direct- Material Price Variance
ii. Direct - Material Quantity Variance
iii. Direct – Labour Rate Variance
iv. Direct - Labour Efficiency Variance (8Marks)

QUESTION FOUR

a) ABC Company manufacture product Z which passes three departments; Moulding, Assembly and Finishing.

The following activity took place in the month of May 2013

	Units
WIP Inventory, May 1st 2013	1,400
Units transferred in from Assembly Department	14,000
Units completed and transferred out to Finished Inventory	11,500

Raw material is added at the beginning of processing in Finishing Department. W IP inventory was 70% complete as on the conversion on May, 31. The equivalent units and current cost per unit of production for each cost factor are as follows for Finishing Department:

	Equivalent Units	Current Period Cost (Ksh.)
Transferred – in costs	15,400	50
Raw material	15,400	10
Conversion Cost	13,300	30
Total		90

Required:

Calculate the following:

i. Cost of units completed and transferred out to finished goods inventory during May.
ii. Cost of the Finishing Department's WIP on May 31st.

(10Marks)

b) The following data relates to WOSC Enterprises Ltd for the year 2012

	Ksh.
Actual Manufacturing Overhead	340,000
Budgeted Machine Hours	10,000
Budgeted Direct-Labour Rate	150
Budgeted Manufacturing Overhead	364,000
Actual Machine Hours	11,000
Actual – Labour Hours	18,000
Actual- Direct Labour Rate	160

Required:

a) Calculate the firm's predetermined overhead rate using each of the following cost drivers:
- Machine Hours
- Direct Labour Hours (6Marks)

b) Calculate the over applied or under applied overheads for 2012 using each of the cost drivers listed above. (4Marks)

QUESTION FIVE

a) Jaribu Enterprises provided the following budget. The company Manufactures and sells a single product only.

	Ksh.'000'
Sales	32,000
Direct Materials	11400
Direct Labour	6,500
Overheads	12,800
Profits	1,800

Direct Material costs are variable but labour and overheads are semi-variable. 45% of the overhead Cost is fixed. The selling price per unit is Ksh.90 per unit.

Required:

i. Prepare a per unit Contribution Margin statement (5Marks)
ii. Determine the Break-even Point and Margin of Safety in units. (5Marks)

b) Explain **five** roles of Managerial Accounting in a business environment.(10Marks)