MACHAKOS UNIVERSITY

University Examinations for 2017/2018 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

THIRD YEAR SECOND SEMESTER EXAMINATION FOR
BACHELOR SCIENCE IN AGRIBUSINESS MANAGMENT

BAC 300: MANAGEMENT ACCOUNTING

DATE: 6/12/2017 **TIME: 8:30 – 10:30 AM**

INSTRUCTIONS:

Answer question one and any other two questions

QUESTION ONE (COMPULSORY) (30 MARKS)

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

Year	Project A Ksh	Project B 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 net present value of each project

Using (i) above advice mwema on the project to invest in. (10 marks)

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

c) Briefly explain the meaning of the following terms as used in standard costing:

i) Basic standards (2 marks)
ii) Current standards (2 marks)
iii) Ideal standards (2 marks)
iv) Normal standards (2 marks)

d) State the assumptions that underlie the cost-volume-profit analysis. (4 marks)

QUESTION TWO (20 MARKS)

a) ABC Ltd has an aggregate demand of 1.2 Million units. Each time they place an order there is an ordering cost of shs 1,000, holding cost is shs 100 per unit. Determine:

i. EOQ
ii. No. of order to be made based EOQ
iii. Total cost of stocks based on the EOQ (10 marks)

b) 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 Kshs**	**Sales Kshs**	**Salaries Ksh**	**Overhead 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 moth 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.

c) Prepare a cash budget on monthly basis for the last quarter of the year 2015

(10 marks)

QUESTION THREE (20 MARKS)

a) The following data relate to Kenya Ltd for the year ended 31 December 1999.

	Sh '000'
Sales	24,000
Less: Total costs	20,000
Net profit	4,000

Fixed costs account for 40% of the total costs.

Required:

i) Margin of safety. (2 marks)

ii) Break-even point in sales (2 marks)

iii) Sales required to earn profit of Sh 6,000,000. (2 marks)

iv) In order to increase sales, the management has the following two options:

1. To increase sales by 25% on incurring a sales promotion cost of Sh 2,500,000.
2. To increase sales by 15% on reducing selling price by 5%.

Advise the management on which option they should take. (8 marks)

b) Discuss the factors to consider when setting the stock levels (6 marks)

QUESTION FOUR (20 MARKS)

(a) Lotus Ltd manufactures mobile telephones. The current operating level is 400,000 phones but full capacity is 550,000. The phones normally sell for Sh 1,500 per phone. Manufacturing cost data of 400,000 phones is as shown below:

	Sh'000'	**Sh'000'**
Manufacturing costs		
Variable costs	300,000	
Fixed costs	187,500	487,500
Selling and administration costs		
Variable (freight and commissions) costs	30,000	
Fixed costs	60,000	90,000
		577,500

A vendor offers to buy 100,000 phones for export at Sh 1,125 per phone. The buyer will pay for freight and no commissions will be paid. The acceptance of this offer will not affect the present sales. The managing director is reluctant to accept that offer because he believes that the offer price of Sh 1,125 is well below the manufacturing cost per unit.

Required:

i) Should the offer be accepted? (7 marks)

ii) What factors should be considered before accepting the order? (3 marks)

(b) The following information is given for material Y-20.

Consumption:

Annual	360,000 units
Maximum	1,200 units/day
Minimum	800 units/day
Normal	900 units/day
Re-order period	12 – 24 days
Re-order quantity	32,000 units

Required:

i) Re-order level. (3 marks)

ii) Minimum stock level. (3 marks)

iii) Maximum stock level (3 marks)

iv) Average stock level (1 mark)

QUESTION FIVE (20 MARKS)

(a) Explain four advantages of using Net Present Value(NPV)method in evaluating projects. (8 marks)

(b) Jino limited manufactures two products 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

(iii) Material usage budget (12 marks