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

FIRST SEMESTER EXAMINATION FOR DEGREE IN BACHELOR OF COMMERCE

BAC 300: MANAGEMENT ACCOUNTING

Date: 1/8./2016 **Time: 8:30 – 10:30 AM**

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

QUESTION ONE

a) State the assumptions that underlie the break-even analysis. (6 marks)

b) Describe ABC method inventory management and highlight its limitations. (6 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) Briefly differentiate the following terminologies used in cost accounting.

i) Relevant range and relevant cost. (2 marks)

ii) Controllable costs and non-controllable cost. (2 marks)

iii) Perpetual inventory system and continuous inventory system. (2 marks)

iv) Profit center and cost center. (2 marks)

v) Opportunity cost and incremental cost. (2 marks)

QUESTION TWO

The following information has been extracted from the books of Solarcross Ltd for the year to 31 March 2015:

	Units '000'
Production	30
Sales	24
Production cost incurred:	**Sh '000'**
Direct material	7,200
Direct labour	1,800
Variable overheads	1,500
Fixed overheads	2,700
Selling and administrations costs:	
Sales and salaries	450
Variable sales commission	300
Promotion and advertising	480
Other fixed costs	720

The company's unit selling price is Sh 550.

Required:

a) Profit and loss statement under direct costing approach. (8 marks)
b) Profit and loss statement under indirect costing approach. (8 marks)
c) An explanation of the difference in profit or loss in (a) and (b) above. (4 marks)

QUESTION THREE

a) Explain the advantages of centralized system of maintaining stores. (5 marks)

b) Explain the assumptions behind the determination of Economic Order Quantity (EOQ). (5 marks)

c) 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 (4 marks)

QUESTION FOUR

a) List and explain the advantages of standard costing. (5 marks)

b) Roasters Limited is a coffee-blending firm. It produces a special blend of coffee known as "Utopia Blend" by mixing two grades of coffee "AB" and "QP" as follows:

Material	Standard mix ratio	Standard price per Kg
AB	40%	Sh 120
QP	60%	Sh 100

A standard loss of 15% is expected. During the month of March 2015, the company produced 2,500 kg of "Utopia Blend". The actual quantities blended were as follows:

	Quantity used	**Cost (Sh)**
AB	1,400kg	175,000
QP	1,600kg	152,000

Required:

Calculate the following variances

i) Material price variance (2 marks)
ii) Material usage variance (2 marks)
iii) Material min variance (4 marks)
iv) Material yield variance (4 marks)
v) Material cost variance (3 marks)

QUESTION FIVE

a) Explain the term budgetary control and state its importance to a business firm. (10 marks)

b) State and briefly explain the limitations of budgets in the management of business firms. (10 marks)