MACHAKOS UNIVERSITY

University Examinations for 2016/2017 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARMENT OF BANKING, ACCOUNTING & FINANCE

THIRD YEAR SECOND SEMESTER EXAMINATION FOR BACHELOR OF COMMERCE

BAC 300: MANAGEMENT ACCOUNTING

DATE: 24/7/2017 **TIME: 8:30 – 10:30 AM**

<u>INSTRUCTIONS.</u>

Answer Question One and any other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

a) Distinguish between the management accounting and financial accounting (8 marks)

b) Explain the role of management accountant. (4 marks)

c) Highlight the assumption of break-even analysis. (4 marks)

d) You have asked to prepare an analysis between fixed and variable costs in your department. The power costs do not seem to fit into either category easily, the details are as follows:

Week	power cost	machine hours
	Shs.	
1	7,200	16,000
2	7,900	18,000
3	6,100	13,000
4	6,760	15,800
5	7,740	17,200
6	8,040	18,400
7	4,190	7,400

You are required to:

e) Separate the cost, finding the closest estimate of the element and the variable cost per machine hours, using high low method. (8 marks)

f) Estimate the cost likely in week 8 if the expected level of machine hours is 16,000. (4 marks)

QUESTION TWO (20 MARKS)

The zobiwa shoes company sells five different styles of ladies 'slippers with identical purchase costs and selling Prices. The Company is trying to find out the profitability of opening another store which will entail the following expenses and revenues:

	Shs	shs
Selling price		600.00
Less:purchase cost	390.00	
Salesmens commission	30.00	420.00
The annual fixed expenses are		
Rent		120.00
Salaries		400,000
Advertisement		160,000
Other fixed expenses		40,000
Fixed Cost		720,000

Consider each the following questions separately. You are required to:

(a) Calculate the annual breakeven point in units and in value. Also, determine the profit or loss if 3,500 units of slippers are sold. (5 marks)

(b) The sales commission is to be discounted and instead a fixed amount of shs.180,00 is to be incurred on fixed salaries. A reduction in selling price of 5% is also proposed. What will be the breakeven point in units? (5 marks)

(c) It is supposed to pay the store manager an additional sh.10.00 per pair as commission. The selling price ia also proposed to increase by 5%. What then would be the breakeven point in units? (5 marks)

(d) Refer to the data given above: if the store manager was to be paid sh.60.00 commission more on each pair of slippers sold in excess of the breakeven point. What would be the stores net profit if 10,000 pairs were sold? (5 marks)

QUESTION THREE (20 MARKS)

Assume that you have been given the following data extracted from company A

a) Daily consumption =520-720 units
b) Lead time=64-80 days
c) EOQ=19,200 units
d) Holding cost per unit sh 40

Required

Calculate

i) Reorder level (2 marks)
ii) Average stock level (8 marks)
iii) The cost of holding base stock (2 marks)
iv) If the normal consumption is 480 units, calculate the cost of holding base stock (4 marks)
v) Explain the causes of the difference between (iii) and (iv)above (4 marks)

QUESTION FOUR (20 MARKS)

Bridget Ntagu ltd produces thatched roofs for houses. The budget for 2009 was as follows:

Number of houses to thatched	280	
	Shs	shs
Revenue		12,000
Standard cost per roof:		
Direct materials		
Thatch 2 tons @shs 800 per ton		1600
Other materials		600
Direct labour 600 hours@shs 10.00	3,000	
Variable production overhead		
300 hours at shs 2.00	600	
Fixed production overhead		
300 hours @shs 14.00	4,200	
Standard cost		10,000
Standard profit		2,000

NOTE:

(a) The budgeted fixed production overhead was shs 294,000 from which the standard absorption rate of 588,000(280*600 hours) =shs 14.00 per standard hour was derived.

(b) Since one thatched roof equals 600 standard hours of output, the fixed overhead cos per roof =600 standard hours=shs 4,200

(c) There is additional budgeted overhead for selling and administration of shs 60,000.

This expenditure is regarded as fixed cost.

Actual results in 2009 were as follows:

Number of roof thatched	300roofs	
Revenue (selling price per roof shs 11,520)	shs 1,728,000	
Thatch:		
Purchase 720 tons,cost		shs 266,400
Used 680 tons		
Other direct materials, cost	shs96	
Direct labour:	104,000hours	
Hours worked (active time)	88,000 hours	
Hours of idle time	16,000 hours	
Cost of hours paid for		shs576, 000
Variable production overhead		shs 92,000
Fixed production overhead		shs 608,000
Sales and administration overhead		shs 64,000

Required:

(a) Prepare an operating statement reconciling the budgeted profit with the actual profit. All closing stock is valued at standard cost. (10 marks)

(b) An explanation of the possible interdependence between variance. (10 marks)

QUESTION FIVE (20 MARKS)

a) Explain the term relevant cost. (4 marks)

b) Explain the factors you should consider for an effective inventory control. (8 marks)

c) Explain the assumptions breakeven analysis. (8 marks)