MACHAKOS UNIVERSITY

University Examinations for 2017/2018 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

SECOND YEAR FIRST SEMESTER EXAMINATION FOR DIPLOMA IN ACCOUNTANCY

DPS 210: COST AND MANAGEMENT ACCCOUNTING

DATE: 4/12/2017 **TIME: 11:00 – 1:00 PM**

INSTRUCTIONS:

Answer any three questions, **question one is compulsory**

QUESTION ONE (COMPULSORY) (30 MARKS)

Two Left Feet Ltd manufactures a single product, the Claud. The following figures relate to the Claud for a one-year period,

Activity level		50%	100%
Sales and productions (units)		400	800
		Ksh.	Ksh.
Sales		8,000	16,000
Production costs:	Variable	3,200	6,400
	Fixed	1,600	1,600
Sales and distribution costs:	Variable	1,600	3,200
	Fixed	2,400	2,400

The normal level of activity for the year is 800 units. Fixed costs are incurred evenly throughout the year, and actual fixed costs are the same as budgeted.

There were no stocks of Claud at the beginning of the year.

In the first quarter, 220 units were produced and 160 units sold.

Now:

a) Calculate the fixed production costs absorbed by Clauds in the first quarter if absorption costing is used,

b) Calculate the profit using absorption costing,

c) Calculate the profit using marginal costing,

d) Explain why there is a difference between the answers to (c) and (d).

QUESTION TWO (20 MARKS)

Maputo Ltd. Manufactures and sells one brand of washing soap. The sale price per one dozen packet is Sh.50. The standard production cost is Sh.42.80 per dozen arrived at as follows:

	Shs
Direct materials: Material A – 3 Kg. @Sh.4	12.00
Material B – 2 litres @ Sh.5	10.00
Direct labour: ½ hour @ Sh.20	10.00
Overheads:	
Variable	7.20
Fixed	3.60
	42.80

Factory overheads are allocated on the basis of machine at the rate of sh.12 per hour. During the last financial year the company had budgeted to produce 72,000 dozen packets. However, material shortages limited production to 64,000 dozen packets for which the following costs were incurred:

	Shs
Material A 194,000 Kg.	780,800
B 130,000 litres	625,000
Direct labour 35,000 hours	684,000
Variable overheads	384,000
Fixed overheads	250,000

The company utilized 60,000 machine hours

Required

(a) Calculate the following variances:

a. Material price and usage variance (6 marks)

b. Labour rate and efficiency variances (4 marks)

c. Variable overhead spending and efficiency variances. (4 marks)

d. Fixed overhead volume variance (6 marks)

QUESTION THREE (20 MARKS)

XYZ Company manufactures a product called "PERMA". Pertinent cost and revenue data relating to the manufacture of this product is given below:

	Shs	
Selling price per unit	66	
Variable production cost per unit	44	
Variable selling cost per unit	4	
Fixed production cost (total)		Shs.200,000
Fixed selling and administrative cost (total)		Shs.99,000

Required

a) Calculate the break-even sales level in shillings;

b) Suppose the company desires to make a profit of shs.195,000, what should be the output in units?

c) A new machine, which is more efficient, is installed. This machine increases the fixed production cost by 20% but reduces the variable production cost per unit by 30%. What is the new break-even point in sales revenue?

d) State five limitations of break-even analysis.

QUESTION FOUR (20 MARKS)

Differentiate the following terminologies:

(i) Relevant costs and irrelevant costs (5 marks)

(ii) Cost center and cost unit. (5 marks)

(iii) Semi-fixed and semi variable costs. (5 marks)

(iv) Sunk costs and product costs (5 marks)

QUESTION FIVE (20 MARKS)

a) Distinguish between cost accounting and financial accounting. (10 marks)

b) Explain the roles of a Management accountant (10 marks)