# 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 DIPLOMA IN ACCOUNTANCY**

**DACC 203: MANAGERIAL ACCOUNTING**

**Date: 8/8/2016** **Time: 2:00 – 4:00 PM**

**INSTRUCTIONS**

**Answer Question One and Any Other Questions**

1. (a) Discuss the limitation of budgetary control . (10 marks)

(b) Kawira limited is considering investing in either project a and b. the following are the expected net cash flows from the two projects.

| | | Project A | Project B |
|---|---|---|---|
| | | Sh | sh |
| Year | | 1,500,000 | 1,500,000 |
| | 1 | 600,000 | 400,000 |
| | 2 | 800,000 | 600,000 |
| | 3 | 800,000 | 600,000 |
| | 4 | 200,000 | 600,000 |
| | 5 | 100,000 | 500,000 |

The company's cost of capital is 18%

i) Calculate for each project the net present value discounted payback period

ii) Advice the management on the project to invest in. (12 marks)

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

2. a) Why might management decide to produce a product internally at higher cost than to buy the same product in the open market.

b) The superstar limited uses direct costing for internal control purpose and absorption costing for external reporting purposes.

At the end of March 2007 it was anticipated that sales would rise 20% the next year. Therefore production was increased from 20,000 units to 24,000 units to meet this expected demand. However economic conditions were not especially fruitful: only 20,000 units were sold.

The following data pertain to the year march 2008

| | SHS. |
|---|---|
| Selling price per unit | 30 |
| Beginning finished goods [units] | 6 |
| Sales [units] | 20,000 |
| Ending finished goods inventory [units] | 24,000 |
| Variable manufacturing costs per unit for the | |
| Year ending March 2008 | |
| Direct Labour | 7.50 |
| Direct materials | 4.50 |
| Variable manufacturing overhead | 3.00 |
| Total variable manufacturing cost | 15.00 |
| Annual fixed cost for 2007-2008 | |
| Manufacturing | 96,000 |

| | |
|---|---|
| Selling administration | <u>100,000</u> |
| | 196,000 |

There were no variable selling and administrative costs.

All taxes are to be ignored.

a) prepare on income statement based on direct costing for the year ended march 2008

b) Prepare on income statement based on absorption costing for the year ended march 2008.

c) Explain the differences if any in the net income figures by an analysis of the inventories.

(16 marks)

3. X Y Z Ltd furnishes you with the following income information.

| | YEAR 2004 | |
|---|---|---|
| | FIRST HALF | SECOND HALF |
| SALES | 810,000 | 1,026,000 |
| PROFIT EARNED | 21,600 | 64,800 |

From the above you are required to complete the following assuming that the fixed cost remains the in both periods.

a ) profit /volume ratio

b) Fixed cost.

c) The amount of profit or loss where sales are 648,000

d ) The amount of sales required to earn a profit of 108,000 (12 marks)

e) Discuss four types of standards. (8 marks)

4. The following information is available from the cost records of a company for February 2003

| | |
|---|---|
| Material purchased 20,000 pieces | 88,000 |
| Material consumed 19,000 pieces | |
| Actual wages paid for 4,950 hours | 24,750 |
| Factory overheads incurred | 44,000 |
| Factory overhead budgeted | 40,000 |
| Units produced 1,800 | |

Standard rates and prices are:

Direct material rates 4 per piece

Standard input 10 piece per unit

Direct labour rate 4 per hour

Standard requirement 2.5 hour per unit

Overhead 8 per labour hour

Required

(a) Show the standard cost card (6 marks)

(b) Compute material, labour and overhead variance analysis (14 marks)

5. a) 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** | **Sales** | **Salaries** | **Overhead** |
|---|---|---|---|---|
| | **Kshs** | **Kshs** | **Ksh** | **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.

Prepare a cash budget on monthly basis for the last quarter of the year 2015 (12 marks)

b) Explain four advantages of a standard costing system in an organization

(8 marks)