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GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS
MAY - AUGUST 2018 SEMESTER

BACHELOR OF COMMERCE

COURSE CODE: BCAC 301

COURSE TITLE: MANAGEMENT ACCOUNTING

DATE: 7 AUGUST 2018 **TIME: 11.30 AM – 2.30 PM**

<u>INSTRUCTIONS TO CANDIDATES</u>

1. SECTION A IS **COMPULSORY.**
2. SECTION B: ANSWER ANY OTHER **THREE** QUESTIONS.
3. **<u>DO NOT</u>** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

CAUTION: *All exam rooms are under CCTV surveillance during the examination period.*

SECTION A: COMPULSORY

Question One

a) Explain the importance of a budget **[12 marks]**

b) Explain the major characteristics of modern businesses that necessitate the introduction of a strategic cost management system. **[6 marks]**

c) In budgeting, control is an important activity. Explain the two types of control applied in budget control and variance investigation **[8 marks]**

d) The overhead manufacturing company has shs 400,000 for a specific period. The total output was 50,000 units, the following information was also provided also provided

Material cost	435,000
No. of labor hours	25,000
Labor cost	175000
No of machine hours	112,000 hrs

REQUIRED

Calculate the overhead absorption rate (6)

F) Explain the assumptions laid down in relevant costing **[6 marks]**

g) Briefly explain three methods that can be used to analyze uncertainty in cost-volume-profit (C-V-P) analysis. **[2 marks]**

SECTION B: ANSWER ANY THREE QUESTIONS

Question Two

Aberdares Company Ltd. is a manufacturing company which produces and sells a single product known as T_1 at a price of Sh.10 per unit. The company incurs a variable cost of Sh.6 per unit and fixed costs of Sh.400,000. Sales are normally distributed with a mean of 110,000 units and a standard deviation of 10,000 units. The company is considering producing a second product,

T_2 to sell at Sh.8 per unit and incur a variable cost of Sh.5 per unit with additional fixed costs of Sh.50,000. The demand for T_2 is also normally distributed with a mean of 50,000 units and standard deviation of 5,000 units. If T_2 is added to the production schedule, sales of T_1 will shift downwards to a mean of 85,000 units and standard deviation of 8,000 units. The correlation coefficient between sales of T_1 and T_2 is –0.9.

Required:

a) The company's break-even point for the current and proposed production schedules. **[9 marks]**

b) The coefficient of variation for the two proposals. **[8 marks]**

c) Based on your computation's in (i) and (ii) above advise the company on whether to add T_2 to its production schedule. **[3 marks]**

Question three

a) Explain the assumptions underlying the CVP analysis **[10 marks]**

b) Any decision made in an organisation can affect it positively or negatively. Hence, the management is expected to take caution and be aware of all the possibilities before concluding to take any direction. Illustrate the decision making process that may help in coming up with a sound and reasonable decision **[10 marks]**

Question Four

Differentiate between the following terms as used in accounting

i) Management accounting and cost accounting **[4 marks]**

ii) Absorption costing and Marginal costing **[6 marks]**

iii) Direct costs and indirect costs **[4 marks]**

iv) Stepped costs and Variable costs **[6 marks]**

Question five

A processing company, Timao Co. Ltd., is extremely busy. It has increased its output and sales from 12,900 kg in 1st quarter of the year to 17,300 kg in the 2nd quarter. Although demand is still rising, it cannot increase its output more than an additional 5% from its existing labour force, which is now at its maximum.

Data for its four products in 2nd quarter were:

	Product P	**Product Q**	**Product R**	**Product S**
Output (Kg)	4560	6960	3480	2300
Selling price (Sh. Per kg)	162	116.40	99.20	136.80
Costs (Sh. Per kg)				
Direct labour @ Sh.60 per hour)	19.60	13.00	9.90	17.00
Direct materials	65.20	49.00	41.00	54.20
Direct packaging	8.40	7.40	5.60	7.00
Fixed overhead (Absorbed on basis of direct labour cost)	39.20	26.00	19.80	34.00
	132.40	**95.40**	**76.30**	**112.20**

The Kagocho Company has offered to supply 2000 kg of product Q at a delivered price of 90% of Timao's Co. Ltd. Selling price. Timao Co. Ltd., will then be able to produce extra of product P instead of product Q to the plant's total capacity.

Required:

a) State with supporting calculations, whether Timao Co. Ltd should accept the Kagocho Company's offer. **[15 marks]**

b) Which would be the most profitable combination of subcontracting 2000kg of one product at a price of 90% of its selling price and producing extra quantities of another product up to the plant total capacity?

Assume that the market can absorb the extra output. **[5 marks]**