



**JARAMOGI OGINGA ODINGA UNIVERSITY**

**OF SCIENCE & TECHNOLOGY**

**UNIVERSITY EXAMINATIONS 2012/2013**

**4<sup>TH</sup> YEAR 1<sup>ST</sup> SEMESTER EXAMINATION FOR THE DEGREE  
OF BACHELOR OF EDUCATION (ARTS) WITH IT**

**(REGULAR)**

**COURSE CODE: ABA 456**

**COURSE TITLE: MANAGEMENT ACCOUNTING I**

**DATE: 23/8/2013**

**TIME: 9.00-11.00 AM**

**DURATION: 2 HOURS**

**INSTRUCTIONS**

- 1. This paper consists of 5 Questions.**
- 2. Answer Question 1 (Compulsory) and any other 2 questions.**
- 3. Write your answers on the answer booklet provided.**

**QUESTION ONE (COMPULSORY)**

- (a) What is management accounting and how does it differ from financial accounting? (10 marks)
- (b) Information produced by management accountant must be judged in the light of its ultimate effect on the outcome of decisions. With reference to this statement explain the decision making procedure using a suitable flow chart. ( 5 marks)
- (c) The management of Bondo Ross Carverse Ltd is considering which of the two mutually exclusive projects to select. Details of each project is as follows:

<b>Project S</b>		<b>Project T</b>	
Probability	Profit Kshs'000	Probability	Profit Kshs'000
0.3	150	0.2	(400)
0.3	200	0.6	300
0.4	250	0.1	400
		0.1	800

If the management is risk averse, which project seems preferable? (5 marks)

- (d) The following information relates to direct material cost for an accounting period ended 31<sup>st</sup> Dec 20X12:
  - (i) The standard material per product unit is 1.5 square metres at a standard price of Kshs1,300 per square metre.
  - (ii) The budgeted output is for 800 product units but the output achieved is 900 product units.
  - (iii) The actual material used in production during the period was 1,300 square metres which cost Kshs 1,400 per square metre.

Required:

Calculate the direct material cost variance for the period and show how it may be sub-divided into a direct material usage variance and a direct material price variance.

(5 marks)

## QUESTION TWO

The summary profit and loss statement for Boiyot Ltd for the year ended 31<sup>st</sup> Dec 20X12 is as follows:

	Kshs	Kshs
Sales Revenue		500,000
Variable costs:		
Direct materials	100,000	
Direct labour	80,000	
Overhead	<u>120,000</u>	<u>300,000</u>
Contribution		200,000
Fixed costs		<u>125,000</u>
Net profit		<u><b>75,000</b></u>

In the year to 31<sup>st</sup> Dec 20X13 the following changes are estimated:

- (a) Selling price will be reduced by 2% in order to stimulate demand.
- (b) Direct material price will rise by 4%.
- (c) Improved direct labour efficiency will lead to a fall in labour cost of 5%.
- (d) Variable overhead will increase by 3% because of increased prices.
- (e) Fixed overheads will increase by Kshs 15,000 because of increased depreciation of new machinery.

### Required:

- (i) Calculate sales value (Kshs) at which:
  - (a) breakeven point; (4 marks)
  - (b) net profit of Kshs 100,000 (4 marks)will occur in the year to 31<sup>st</sup> Dec 20X13.
- (ii) Prepare a summary operating statement which shows;
  - (a) the breakeven position (4 marks)
  - (b) the conditions to give a net profit of Kshs 100,000 in the year ended 31<sup>st</sup> Dec 20X13. (3 marks)

### QUESTION THREE

An engineering company operates a factory which consists of three workshops ; - Machine, Assembly and Finishing. The number of direct hours to be worked, the direct labour costs and the variable overheads in respect of the forthcoming year are estimated as follows

	Number of direct labour (Hours)	Direct labour cost (Kshs)'000	Variable overheads (Kshs)'000
Machine shop	10,000	32,000	8,000
Assembly shop	10,000	30,000	10,000
Finishing	5,000	18,000	6,000

Factory fixed overheads are estimated at Kshs 4,000,000. Administration/selling expenses are absorbed by adding 10% of prime cost. Factory overheads are absorbed by the use of predetermined rates per direct labour hours. Separate departmental rates are used for variable production overheads and a factory wide average rate for fixed production overheads.

#### Required:

Complete detailed estimate for Job X given that a profit of 20% of the final quoted price is required. The following information is available:

Materials required:- from stores	<b>Kshs</b> 960
- to be bought	257

#### Direct labour estimates:

Machine shop	65 hours
Assembly shop	40 hours
Finishing	25 hours

Distribution overheads for Job X have been estimated at Kshs 290,000. The distribution will be done by an outside haulage firm.

#### QUESTION FOUR

- (a) Explain the nature of a system of budgetary control, and list the advantages to management of such a system. (8 marks)
- (b) A company prepares the following main budgets:
- (i) Sales budget
  - (ii) Manufacturing budget
  - (iii) Purchasing budget
  - (iv) Selling and administrative overhead budget.

You are required to describe briefly the relationship between these budgets and the content of each. (7 marks)

#### QUESTION FIVE

Mbita Ferry Transport Company is preparing its budget for the year to 31<sup>st</sup> Dec 20X13. In respect of fuel consumption, it is desired to estimate an equation of the form  $y = a + bx$ , where  $y$  is the total expense at an activity level  $x$ ,  $a$  is the fixed expense and  $b$  is the rate of variable cost. The following data relates to the year ending 31<sup>st</sup> Dec 20X13.

MONTH	Machine hours (Hours)	Fuel expense Kshs'000
JAN	260	500
FEB	260	500
MAR	310	530
APR	350	550
MAY	430	580
JUN	480	680
JUL	340	640
AUG	300	620
SEP	340	620
OCT	390	590
NOV	420	500
DEC	320	530

The total and monthly average figures for the year ending 20X13 were as follows:

	<b>Machine hours</b>	<b>Fuel expense Kshs'000</b>
Annual total	4200	6,840
Monthly average	350	570

You are required to:

- (a) Estimate fixed and variable elements of fuel expense from the above data by the following methods:
- (i) High-Low method (3 marks)
  - (ii) Least-squares regression analysis (5 marks)
- (b) Compare briefly the methods used in (a) above in relation to the task of estimating fixed and variable elements of a semi-variable cost; (4 marks)
- (c) Accepting that the coefficient of determination arising from the data given in the question is approximately 0.25, interpret the significance of this fact. (4 marks)