JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS & ECONOMICS

UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION WITH IT

4TH YEAR 1ST SEMESTER 2013/2014 ACADEMIC YEAR

BUSIA LC

COURSE CODE: ABA 404

COURSE TITLE: MANAGEMENT ACCOUNTING I

EXAM VENUE: **STREAM : (BBA-ACCOUNTING OPTION)**

DATE:11/12/14 **EXAM SESSION: 9.00 -11.00 AM**

TIME: 2 HOURS

Instructions:

1. **Answer Question ONE (COMPULSORY) and ANY other 2 questions**
2. **Candidates are advised not to write on the question paper.**
3. **Candidates must hand in their answer booklets to the invigilator while in the examination room.**

QUESTION ONE

The following information ahs been assembled by Sancross Products Ltd which manufactures and retails products A and B. The details given below relate to the year commencing 1 July 2013:

	Standard	Product	
	Price per kg	A kg	g
Direct material – M1	Sh 4	15	20
M2	Sh 5	14	12
	Standard	**Product**	
	Rate per hour	A hours	B hours
Direct labour – L1	Sh 8	20	15
L2	Sh 10	22	24

Fixed production overhead is applied on direct labour basis. Administration, selling and distribution expenses are recovered at the rate of 20% of production cost and profit loaded at 25% of standard production cost.

	Product	
	A	**B**
	Sh '000'	**Sh '000'**
Projected sales for the year	12,033	10,053

Finished goods stock position valued at production cost is expected to be as follows:

	Product	
	A	**B**
	Sh '000'	Sh '000'
1 July 2013	3,000	2,000
30 June 2014	5,000	4,000

Direct material stocks valued at standard prices are as follows:

	Material	
	M1	M2
	Sh '000'	Sh '000'
1 July 2013	200	250
30 June 2014	220	270

For the year to 30 June 2014, fixed production overhead has been estimated at Sh 1,800,000 and direct labour at 1,200,000 hours.
No opening or closing work-in-progress is anticipated.

Required:

a) Production budget in units. (8 marks)
b) Direct materials cost budget. (3 marks)
c) Purchases budget in value. (6 marks)
d) Direct labour cost budget. (3 marks)
e) State and explain five assumptions that underlie the cost-volume-profit analysis. (5 marks)

f) Explain the meaning and significance of the following terms in the context of the cost-volume – profit analysis:

i. Relevant range. (1 mark)
ii. Margin of safety. (1 mark)
iii. Sensitivity analysis. (1 mark)
iv. Contribution margin per unit. (1mark)
v. Contribution sales ratio. (1 mark)

(Total: 30 marks)

QUESTION TWO

The following information has been extracted from the books of Solarcross Ltd for the year to 31 March 2013:

	Units '000'
Production	30
Sales	24
Production cost incurred:	**Sh '000'**
Direct material	7,200
Direct labour	1,800
Variable overheads	1,500
Fixed overheads	2,700
Selling and administrations costs:	
Sales and salaries	450
Variable sales commission	300
Promotion and advertising	480
Other fixed costs	720

The company's unit selling price is Sh 550.

Required:

a) Profit and loss statement under direct costing approach. (8 marks)
b) Profit and loss statement under indirect costing approach. (8 marks)
c) An explanation of the difference in profit or loss in (a) and (b) above. (4 marks)

(Total: 20 marks)

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QUESTION THREE

Njoro Ltd. has been manufacturing and selling three products in Nairobi. The market demand for the products on average has been as follows:

Product	**Annual demand Units**
Coolo	20,000
Besto	25,000
Zedo	48,000

The manufacture of the products requires time on a machine as follows:

Product	**Time required**
Coolo	30 minutes
Besto	45 minutes
Zedo	20 minutes

The following details are available for each of the products:

	Coolo	Besto	Zedo
	Sh	Sh	Sh
Direct materials	15	12	14
Direct labour	25	20	23
Variable overheads	5	3	6
Fixed overheads	7	5	8
Profit per unit	8	8	8
Selling price	60	48	59

Due to the prevailing drought and power rationing, the company can only manage to get a maximum of 30,000 hours on the machine per year.

Required:

a) Rank the products in order of priority if there is a limitation of the machine hours. (9 marks)

b) Advise the management on the most profitable product mix. (3 marks)

c) Determine the resultant net profits from the mix in (b) above. (8 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Given below is the budget information for BN Ltd. and the actual results for the period to 30 June 2013.

	Budget	**Actual**
Production/Sales (units)	2,000,000	1,800,000
Direct labour hours	8,000,000	7,560,000
Direct materials (Kg)	5,000,000	4,320,000
Variable overheads (Sh.)	85,000,000	90,000,000
Fixed overheads (Sh.)	80,000,000	76,000,000

The standard selling price of the product is Sh. 240 per unit while the input costs are as follows:

	Sh.
Direct labour per hour	15
Direct material per kg	25

Overheads are absorbed on a direct labour hour basis.

Required:

Prepare in columnar form the budgeted profit and loss account and flexible budget for the level of output achieved for the year ended 30 June 2013. (5 marks)

(b) The information given below relates to Wasp Ltd. which manufactures a single type of chemical. Overhead processing costs for the last thirteen accounting months (of four weeks each) have been as follows:

Period	**Overhead cost Sh. '000'**	**Output '000' tonnes**
1	770	120
2	820	150
3	810	160
4	830	170
5	960	200
6	900	170
7	940	200
8	950	200
9	940	180
10	870	160
11	800	140
12	820	150
13	790	140

Required:
Devise a formular to assist in predicting the overhead budget for the thirteen months.
(15 marks)
(Total: 20 marks)

QUESTION FIVE

Nyundo Ltd manufactures a product whose standard variable cost is given below:

Direct materials (2 kg @ Sh 3)	6
Direct labour (0.75 hours @ Sh 4)	3
Variable overheads	1

The company treats fixed costs as period costs and therefore they are not charged to products.
The following information relates to the month of March 2011.

	1/3/2011	31/3/2011
	Sh	Sh
Stocks (all at standard cost)		
Raw materials	12,000	6,000
Finished goods	36,000	42,500

The following information is available for the month of March 2011:

	Sh
Sales @ Sh 20 per unit	200,000
Material purchases @ Sh 3.50 per kg	42,000
Direct labour cost (8000 hours)	30,000
Variable overheads	12,000
Material price variance (adverse)	21,000

The management is wondering whether they could have performed better.

Required:

Calculate the following variances in each case stating two possible causes:

a) Material usage variance (6 marks)
b) Labour rate variance. (4 marks)
c) Labour efficiency variance. (4 marks)
d) Variable overhead expenditure variance: (3 marks)
e) Variable overhead efficiency variance. (3 marks)

(Total: 20 marks)