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(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2015/2016 ACADEMIC YEAR

SECOND YEAR SECOND SEMESTER

MAIN EXAMINATION

FOR THE DEGREE OF B.Sc. IN AGRICULTURAL ECONOMICS AND RESOURCES MANAGEMENT

COURSE CODE: IAE 286

COURSE TITLE: INTRODUCTION TO MANAGERIAL ACCOUNTING AND MANAGERIAL ECONOMICS

DATE: 5TH MAY 2016 **TIME:** 2PM – 4PM

INSTRUCTIONS TO CANDIDATES

Answer ALL questions in section A and any TWO in section B.

SECTION A (30 MARKS)

Answer ALL questions from this section

Q1. Define the following terminologies as used in managerial accounting:

(a) **Contribution Margin** (02)

(b) **Margin of Safety** (02)

Q2. (a) Outline how can one choose between alternative-choices? (03)

(b) The Kibabii Company manufactures two types of feeds, A and B. The following sales data for the month of June are given for 2015:

	A	B
Estimated inventory (Bags) June 1	4,500	2,250
Desired inventory (Bags) June 30	4,000	2,500
Expected sales volume (Bags)	7,500	5,000
Unit sales price	Kes 1,200	Kes 1,750

Prepare a sales budget for June 2015. (3 marks)

Q3. (a) Distinguish "**Managerial Accounting"** from "**Financial Accounting".** (08)

(b) "Managerial Accounting is not as important or useful in non-profit organizations such as schools, universities, hospitals and government as it is in private business firms, since these organizations do not strive to make profits". Evaluate the above statement. (02)

(c) List the basis that organizations can classify the costs they incur. (05)

(d) Distinguish "**Variable Costs**" from "**Semi-Variable Costs**" as used in managerial accounting. (02)

(e) List the **three** approaches to break-even analysis. (03)

SECTION B (40 MARKS)

Attempt any **TWO** questions from this section

Q4. The following data relates to Eden Products Company Ltd a manufacturer of animal feeds.

Financial extracts for the month of May 2015

Fixed costs	Sh. 200,000
Variable costs	Sh. 12 per unit
Selling cost	Sh. 28 per unit

The current production is at 75% capacity and the number of units produced and sold is 37,500 units.

Required:

(a) The break-even point in units and in shillings (5 Marks)
(b) The percentage capacity at break-even point (3 Marks)
(c) The profit or loss at the current production capacity (4 Marks)
(d) A new break-even point in units assuming that a new machine is bought, in order to increase production. The new machine will increase the fixed costs by Sh. 70,000 but the variable costs will reduce to Sh. 7 per unit. (4 Marks)
(e) State four assumptions that you have taken into account in answering the question a, b, c and d above. (4 Marks)

Q5. The following information has been assembled by Sucrose Lemons Ltd which manufactures and retails products A and B. The details given below relate to the year commencing 1 July 2015:

		Standard	Product	
		Price	A	B
		Per Kg	Kg	Kg
Direct material	-M1	Sh. 4	15	20
	-M2	Sh. 5	14	12
		Standard	Product	
		Rate	A	B
		Per hour	hours	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 2015	3,000	2,000
30 June 2016	5,000	4,000

Direct material stocks valued at standard prices are as follows:

	Material	
	M1	M2
	Sh. (000)	Sh. (000)
1 July 2015	200	250
30 June 2016	220	270

For the year to 30 June 2016, fixed production overhead has been estimated at Sh. 1,800,000 and direct labour at 1,200,000 hours.

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)

Q6. (a) Explain the reason(s) why construction companies find it prudent to declare profits on uncompleted contracts. (2 marks)

(b) On May 2014, Pendo Construction Company was contracted by Shamba Agricultural Ltd. to construct an irrigation dam at a contract price of Sh. 950,000,000. Work commenced on the contract on 28 July 2014. Retention money was agreed at 10% of work certified. At the end of the first year, no profits were declared as the contract was considered to be in its infancy.

The following details relate to the contract for the year ended 31 December 2015.

Balance brought forward 1.1.2015	Sh. ('000)
Materials on site	4,500
Accrued wages	1,250
Plant (cost)	150,000
Cost of work done	158,200
Work certified to 31 December 2014	160,000

Transactions during the year:

Material delivered to the site:	Sh. ('000)
Ex-stores	14,600
By suppliers	128,400
Additional plant (cost)	120,000
Subcontractors fees	18,450
Consultancy fee	28,000
Inspection fee	500
Salaries and wages	160,000
Head office expenses	1,200
Material transfers out	15,000

Material sales (cost Sh. 19,800)	22
Plant hire	250
Direct expenses	2,600
Total cash received from contractee	580,000
Work certified during the year	660,000
Cost of work uncertified	42,000
Balances carried forward:	
Material on site	51,000
Wages accrued	2,800

Plants have been purchased for use on this contract, Pendo Construction Company provides for depreciation on plant at 12.5% per annum on cost.

Required:

(i) Contract account for the year ended to 31 December 2014 clearly showing the profits and or losses on contract for the year (10 Marks)
(ii) Valuation of work-in-progress (4 Marks)
(iii) Account of Shamba Agricultural Ltd (4 Marks)