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(*Knowledge for Development*)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2017/2018 ACADEMIC YEAR

SECOND YEAR, 2ND SEMESTER EXAMINATIONS

SPECIAL/SUPPLEMENTARY EXAMINATION

FOR THE DEGREE IN BACHELOR OF SCIENCE IN AGRICULTURAL ECONOMICS & RESOURCE MANAGEMENT

COURSE CODE: IAE 286

COURSE TITLE: MANAGARIAL ACCOUNTING & ECONOMICS

DATE: 16TH OCTOBER 2018 **TIME: 8 – 10 AM**

INSTRUCTIONS TO CANDIDATES

- **Answer Question ONE and ANY another TWO Questions.**

QUESTION ONE.

(a) The growth of Management Accounting over the last three decades has largely been informed by the changing business environment. Justify this statement with examples. **(10 Marks).**

(b) **Shah and Associates** wish to prepare an operating budget for the forthcoming trading period.
The following are details regarding their products, costs and sales levels:

Product	X	Y
Material required:		
A (Kgs)	3	4
B (Litres)	2	5
Labour hours required:		
Skilled (hours)	6	3
Semi-skilled (hours)	3	7
Sales level (Units)	3,000	2,300
Opening stocks (Units)	150	300

Closing stock of materials and finished goods will be sufficient to meet 10% of demand. Opening stocks of material A was 340 Kgs and for material B was 1020 litres. Material prices are Shs 14 per Kg for material A and shs 10 per litre for material B.
Labour costs are shs 22 per hour for the skilled workers and 18 per hour for the semi-skilled workers.

Required.

Prepare the following budgets for Shah and Associates ahead of the forthcoming trading period:

(i) Production (Units). - **(4 Marks).**
(ii) Material Usage (Kgs & Litres). - **(4 Marks).**
(iii) Material Purchases (Kgs, Litres and Shs). - **(4 Marks).**
(iv) Labour (hours and Shs). - **(4 Marks).**

(c) Briefly explain the importance of Capital budgeting in a firm. **(4 Marks).**

QUESTION TWO.

Transmara Ltd, a soap maker produces and sells one product only, Axon. The standard cost for one unit of Axon is as follows:

	Kshs.
Direct Material (X) – 10 Kgs at Shs 20 per Kg	200
Direct Material (Y) – 5 Litres at Shs 6 per litre	30
Direct Wages – 5 hours – Shs 6 per hour	30
Fixed Production overhead	50
Total Standard Cost	**310**

The fixed overhead included in the standard cost is based on an expected monthly output of 900 units of Axon.

In April Year 1, the actual financial results were as follows:

Production	800 Units
Material X	7,800 Kgs used costing Kshs 159,900.
Material Y	4,300 Units used costing Kshs 23,650.
Direct Wages	4,200 hours worked for Kshs 24,150
Fixed Production Overhead	Kshs 47,000.

Required.

Calculate the following variances:

(a) Material price and usage variances. - **(7 Marks).**

(b) Labour rate and efficiency variances. - **(6 Marks).**

(c) Fixed production overhead expenditure and volume variances. - **(7 Marks).**

QUESTION THREE.

(a) **Excel Ltd,** a manufacturing company produces three products for which the following operating statement has been prepared:

		Kshs '000s		
	Product A	**Product B**	**Product C**	**Total**
Sales	55,000	80,000	70,000	205,000
Total Costs	60,000	62,000	66,000	188,000
Profit/ (Loss)	(5,000)	18,000	4,000	17,000

The total cost is made up of 65% variable and 35% fixed.

The Management consider that as product A shows a loss it should be dropped.

Required:

Based on the above cost data should Product A be dropped? What other factors should be considered? **(14 Marks).**

(b) What are the Limitations of C.V.P Analysis? **(6 Marks).**

QUESTION FOUR.

(a) State with brief explanation the arguments in favour of marginal costing.
(6 Marks).

(b) Alpine Ltd is a manufacturing company based in Nairobi Kenya. The Directors of the company have just sanctioned the installation of marginal costing system for product costing purposes. They would also like to compare the effects of this method of cost accumulation and product costing on their profit results over the last 6 years. The company is able to sell all its products and maintain a constant finished goods inventory as a buffer between production and sales.

The following information is available about Alpine Ltd:

Annual sales and production over 6 year's	16,000 units
Direct Material costs per unit	Shs 12
Direct Labour Costs per unit	Shs 9
Variable proportion overhead costs per unit	Shs 5
Annual fixed proportion overhead costs	Shs 200,000
Sales price per unit	Shs 40

Additional Information:
Opening Stock 1300 Units
Closing Stock 1300 Units

Required.
Calculate the Net Profit under both Marginal and Absorption Costing.
(14 Marks).