(*Knowledge for Development*)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2020/2021 ACADEMIC YEAR

FOURTH YEAR SECOND SEMESTER

MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE :BCA 406

COURSE TITLE : ADVANCED MANAGEMENT ACCOUNTING.

DATE: 13TH OCTOBER, 2021 TIME: 2.00PM – 4.00PM

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other TWO (2) Questions in Section B

TIME: 2 HOURS

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 2 Printed Pages. Please Turn Over.

QUESTION ONE.

(a) Biasara Bora Ltd. Has a single product whose selling price is Kshs 140 and whose variable expenses are Kshs 90 per unit.
The Company's monthly fixed expense is Kshs 300,000.

Required.

(i) Using the equation method, solve for the unit sales that are required to earn a target profit of Kshs 120,000. **(4 Marks).**

(ii) Using the formula method, solve for the unit sales that are required to earn a target profit of Kshs 160,000. **(4 Marks).**

(b) **(i) Johnsons Ltd.'s** required rate of return is 14% on all investments. The Company can purchase a new Machine at a cost of Kshs 84,900.The new machine would generate cash inflows of Kshs 15,000 per year and have a 12 – year useful life with no salvage value. Compute the Machine's Net Present Value. Is the Machine an acceptable investment? **(5 Marks).**

(ii). Baraza News Ltd. Is investigating the purchase of a new auxiliary press that has a projected life of 18 years.
It is estimated that the new press will save **Shs 30,000** per year in cash operating costs. If the new press costs **Kshs 217,500**, what is its **Internal Rate of return?** Will the Press be an acceptable investment if the company's required rate of return is 16%.Explain? **(6 Marks).**

(iii). Refer to the data in (ii) above for **Baraza News Ltd.** How much would the annual cash inflows (Cost Savings) have to be for the new press to provide the required 16% rate of return? Round your answer to the nearest shilling. - **(5 Marks).**

(c) Discuss the impact of the changing business environment on Management Accounting in the last two decades. **(6 Marks).**

SECTION B.

QUESTION TWO.

(a) AK Ltd. A Company based in Nairobi Kenya Manufactures a product, the Sponge details of which are as follows:

PARTICULARS	
Per Unit	**Kshs.**
Selling Price	240.00
Direct Materials	80.00
Direct Labour	50.0
Variable Overheads	30.00

Annual fixed production overheads are budgeted to be Kshs 1.8 Million and AK Ltd expects to produce 1,420,000 units of the sponge each year. Overheads are absorbed on a per unit basis. Actual overheads are Kshs 1.8 Million for the year.
Budgeted fixed selling and distribution costs are Kshs. 380,000 for six months.
Actual sales and production units for the first six months of 2016 are given below:

Particulars	**January – June, 2016.**
Sales	620,000
Production	680,000

Opening Inventory at the beginning of January, 2016 in units is 60,000.The unit cost of this inventory is Kshs 80.00.

Required.

Prepare Income Statements for the six months using:
(i) Marginal Costing principles. - **(6 Marks).**
(ii) Absorption Costing. - **(6Marks).**

(b) Reconcile the income statements under Marginal and Absorption Statements above. **(4 Marks).**

(c) Highlight and briefly explain two differences between Marginal and Absorption Costing techniques. **(4 Marks).**

QUESTION THREE.

ABC Corporation manufactures and sells a seasonal product that has peak sales in the third quarter. The following information relates to operations in Year 2 – the coming year and for the first two quarters of year 2.

(a) The Company's single product sells for Kshs 75 per unit. Budgeted sales in units for the next six quarters are as follows (all sales are on credit):

	Year 2 Quarter				Year 3 Quarter	
	1	2	3	4	1	2
Budgeted Unit sales	42,000	62,000	103,000	54,000	74,000	84,000

(b) Sales are collected in the following pattern:
- 75%in the quarter the sales are made.
- The remaining 25% in the following quarter.

On January 1, Year 2, the Company's balance sheet showed Kshs 325,000 in accounts receivable, all of which will be collected in the first quarter of the year. Bad debts are negligible and can be ignored.

(c) The Company desires an ending finished goods inventory at the end of each quarter equal to 30% of the budgeted unit sales for the next quarter. On December 31, Year 1, the company had 12,200 units on hand.

(d) Six kilos of raw materials are required to complete one unit of product. The Company requires ending raw materials inventory at the end of each quarter equal to 10% of the following quarter's production needs. On December 31, Year 1, the Company had 23,300 kilos of raw materials on hand.

(e) The raw material costs Kshs 9.00 per Kilo. Raw Material purchases are paid for in the following quarter. On January 1,Year 2,the Company's balance sheet showed Kshs 408,000 in accounts payable for raw material purchases, all of which will be paid for in the first quarter of the year.

Required.

Prepare the following budgets and schedules for the year showing both quarterly and total figures:

(1) A Sales budget and a schedule of expected cash collections. - **(6 Marks).**

(2) A Production budget. - **(6 Marks).**

(3) A Direct Materials budget and a schedule of expected cash payments for purchases of materials. **(8 Marks).**

QUESTION FOUR.

(a) Flamingo Parts Ltd manufacturers auto accessories. One of the Company's products is a set of covers that can be adjusted to fit nearly any small car. The Company has a standard cost system in use for all of its products.

According to the standards that have been set for the seat covers, the factory should work 2,850 hours each month to produce 1,900 sets of covers. The standard costs associated with this level of production are:

Particulars	**Total** Kshs	**Per Set of Covers** Kshs
Direct Materials	42,560.00	22.40
Direct Labour	17,100.00	9.00
Variable Manufacturing Overhead (Based on direct labour hours)	6,840.00	3.60
		35.00

During August, the factory worked only 2,800 direct labour hours and produced 2,000 sets of covers.

The following actual costs were recorded during the month:

Particulars	**Total** Kshs	**Per Set of Covers** Kshs
Direct Materials(12,000 Meters)	45,600.00	22.80
Direct Labour	18,200.00	9.10
Variable Manufacturing Overhead (Based on direct labour hours)	7,000.00	3.50
		35.40

At Standard, each set of covers should require 5.6 meters of material. All the Materials purchased during the month were used in production.

Required.

Compute:
(1) The Direct Materials Price and quantity Variances. - **(5 Marks).**
(2) The Direct Labour rate and Efficiency Variances. - **(5 Marks).**
(3) The Variable Overhead rate and Efficiency Variances- **(5 Marks).**

(b) Highlight and briefly explain the general causes of variances. **(5 Marks).**

QUESTION FIVE.

(a) Jambo Ltd.is considering the introduction of a new product to determine a selling price. The company has gathered the following information:

Number of units to be produced and sold each year................................14,000.
Unit Product cost..Kshs 25.
Projected annual selling and administrative expenses.........................Kshs 50,000
Estimated Investment required by the company............................ Kshs 750,000
Desired return on investment (ROI).. 12%.

The Company uses the Absorption costing approach to cost-plus pricing.

Required.

(i) Compute the Mark-up required to achieve the desired ROI. - **(4 Marks).**
(ii) Compute the selling price per unit - **(2 Marks).**

(b) Menengai Ltd, a leading soap and detergent manufacturer based in Nakuru, Kenya sells bar soap, one of its products. Each bar soap sells for Kshs 50 per unit.
Variable expenses are Kshs 32 per bar soap and fixed expenses associated with the product total Kshs 108,000 per month.

Required.

(i) Compute the Break-Even point in number of units (soaps) and in total shilling sales. **(4 Marks).**

(ii) At present, the company is selling 8,000 units (bar soaps) per month. The sales Manager is convinced that 10% reduction in the selling price would result in a 25% increase in monthly sales of bar soaps.
Prepare two contribution format income statements, one under present operating conditions and one as operations would appear after the proposed changes.
Show both total and per unit data on your statements. **(6 Marks).**

(iii) Refer to data in (ii) above. How many units (bar soaps) would have to be sold at the new selling price to yield a minimum net operating income of Shs 35,000 per month. **(4 Marks).**