



(*Knowledge for Development*)  
**KIBABII UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2019/2020 ACADEMIC YEAR**

**FOURTH YEAR SECOND SEMESTER**

**SPECIAL/SUPPLEMENTARY EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF COMMERCE**

**COURSE CODE :                      BCA 406**

**COURSE TITLE :            ADVANCED MANAGEMENT ACCOUNTING.**

**DATE: 11<sup>TH</sup> FEBRUARY,2021**

**TIME: 11.00AM – 1.00PM**

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**INSTRUCTIONS TO CANDIDATES**

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

TIME: 2 HOURS

KIBUCO observes ZERO tolerance to examination cheating

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

**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) **Kamau 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).**

**SECTION B.**

**QUESTION TWO.**

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

Direct Material (X) – 10 Kgs at Shs 20 per Kg	Kshs. 200
Direct Material (Y) – 5 Litres at Shs 6 per litre	30
Direct Wages – 5 hours – Shs 6 per hour	30

Fixed Production overhead	<u>50</u>
Total Standard Cost	<u><b>310</b></u>

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) **Rex 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	<u>60,000</u>	<u>62,000</u>	<u>66,000</u>	<u>188,000</u>
<b>Profit/ (Loss)</b>	<u>(5,000)</u>	<u>18,000</u>	<u>4,000</u>	<u>17,000</u>

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.**

Write short notes on the following:

- (a) Budget Limiting factor. - (5 Marks).
- (b) General causes of cost variances. - (5 Marks).
- (c) Budget Committee. - (5 Marks).
- (d) Inventory holding costs. - (5 Marks).

**QUESTION FIVE.**

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

**(6 Marks).**

(b) Cambridge 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:

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Annual sales and production over 6 years	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

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**Additional Information:**

Opening Stock 1300 Units

Closing Stock 1300 Units

**Required.**

Calculate the Net Profit under both Marginal and Absorption Costing.

**(14 Marks).**