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KIBABII UNIVERSITY

MAIN CAMPUS

UNIVERSITY EXAMINATIONS

SPECIAL/SUPPLEMENTARY

2019/2020 ACADEMIC YEAR

YEAR TWO SEMESTER TWO

FOR THE DIPLOMA IN MANAGEMENT

COURSE CODE: DAB104

COURSE NAME: MANAGEMENT ACCOUNTING

DATE: 5TH FEBRUARY, 2021

TIME: 8.00AM – 10.00AM

KIBABII UNIVERSITY Observes ZERO tolerance to examination cheating

Duration: 2 Hours

Answer question ONE and any other TWO questions

SECTION A

QUESTION ONE

- a) State and explain six attributes of good information (12 marks)**
- b) Discuss three components of management process in management accounting (6marks)**
- c) Decision making is the process of choosing among alternatives. There are 7 steps that should be followed in decision making. Discuss the steps of decision making (12 marks)**

QUESTION TWO

- a) State and briefly explain three assumptions underlying the break-even theory. (6 marks)
- b) Jamii Company Ltd manufactures and sells a single product. The following information regarding the company's operations for the year ended 30 September 2001 was presented to you.

Profit and loss account for the year ended 30 September 2001

	Sh'000	Sh'000
Sales		30,000
Less:		
a		
b		
Production costs		
Direct material	6,500	
Direct labour	5,400	
Production overhead variable	<u>7,000</u>	
Prime costs		<u>18,900</u>
		11,100
Other expenses:		
Selling – Variable	2,600	
- Cost	1,997	
Administration	<u>2,100</u>	<u>6,697</u>
Net profit		<u>4,403</u>

The following changes are expected to occur during the year ending 30 September 2019:

1. Selling price will be adjusted downward by 3% in order to attract more customers.
 2. Material prices will rise by 2% due to inflation.
 3. There will be a reduction in labour cost of 4%.
 4. Production overheads will increase by 3%.
 5. Increase in the efficiency of sales persons will reduce direct selling costs by 5%.
- All other factors are expected to remain constant.

Required:

- a) Break-even point in sales value (4 marks)
- b) The margin of safety in sales value (2 marks)
- c) The sales value at which profit of Sh 4.5 million will be achieved (2 marks)
- d) A summary operating statement that shows the net profit of Sh 4.5 million in (c) above. (6marks)

QUESTION THREE

The following information related to the proposed budget for K.K Ltd for the months ending 31 December 2018.

Month	Sales Sh. '000'	Material	Production	Administration	
		Purchases Sh. '000'	Wages Sh. '000'	Overheads Sh. '000'	
July	72000	250000	10000	6000	55000
August	97000	31000	12100	6300	6700
September	86000	25500	10600	6000	7500
October	88600	30600	25000	6500	8900
November	102500	37000	22000	8000	11000
December	108700	38800	23000	18200	11500

Additional Information

1. Depreciation expenses are expected to be 0.5% of sales.
2. Expected cash balance in hand on 1 July 2018 is Sh. 72,500,000
3. 50% of total sales are cash sales
4. Assets are to be acquired in the months of August and October at Shs. 8,000,000 and Shs. 25,000,000 respectively
5. An application has been made to the bank for the grant of a loan of Shs. 30,000,00 and it is hoped that it will be received in the month of November
6. It is anticipated that a dividend of Shs. 35,000,000 will be paid in December
7. Debtors are allowed one month's credit

8. Sales commission at 3% on sales is paid to the salesmen each month

Required

A cash budget for the six months ending 31 December 2018. (20 Marks)

QUESTION FOUR

X Limited commenced business in 1st March making one product only, the standard cost of which is as follows

	£
Direct labour	5
Direct material	8
Variable production overhead	2
Fixed production overhead	<u>5</u>
Standard production cost	<u>£20</u>

The fixed production overhead figure has been calculated on the basis of a budgeted normal output of 36,000 units per annum.

You are to assume that there were no expenditure or efficiency variances and that all the budgeted expenses are incurred over the year. March and April are to be taken as equal period months. Selling distribution and administration expenses are

- Fixed: £ 120,000 per annum
- Variable: 15% of the sales value.

The selling price is £35 and the number of units produced and sold was:

	March units	April units
Production	2,000	3,200
Sales	1,500	3,000

You are required;

- a) Prepare profit statements for each of the months of march and April using :

- i. Marginal costing and
 - ii. Absorption costing
- b) Present a reconciliation of the profit and loss figures given in your answers (a) i and (a) ii accompanied by a brief explanation.
- c) Comment briefly on which of the costing principle i.e. marginal or absorption should be used for what purposes and why referring to any statutory or other mandatory constraints (20 marks)