(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2021/2022 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: 20TH JANUARY,2022 **TIME: 8.00AM – 10.00AM**

INSTRUCTIONS TO CANDIDATES

1. Answer a total of **three** questions; question **one** and any other **two** questions.
2. Question **one** carries **30 marks** and each of the other two questions carry **20** marks each.

TIME: 2 HOURS

QUESTION ONE.

(a) Briefly describe the impact of new technology, globalization and deregulation on the practice of Management Accounting. **(8 Marks).**

(b) Kongoni Ltd is considering renting additional factory space to make two products A and B.The Management Accountant of the Firm has prepared the following monthly budget:

	A	**B**	**Total.**
Sales (Units)	**40,000**	**20,000**	**60,000**
	Ksh	**Ksh**	**Ksh**
Sales Revenue	800,000	1,000,000	1,800,000
Variable Material And Labour Costs	(600,000)	(620,000)	(1,220,000)
Fixed Production overheads (allocated on direct Labour hours)	(99,000)	(180,000)	(279,000)
Fixed Administration Overheads (allocated on sales Value)	(16,000)	(20,000)	(36,000)
Profit	**85,000**	**180,000**	**265,000**

The fixed overhead in the budget can only be avoided if neither product is manufactured. Facilities are fully interchangeable between products.

As an alternative to manual production process assumed in the budget, Kongoni Ltd has the option of adopting Computer -aided process. This process would cut variable costs of production by 15% and increase fixed costs by Kshs 120,000 per month.

The Management believes the company will have to depart from its usual cash sales policy in order to sell product B.An average of three months' credit would be given and bad debts and administration costs would probably amount to 4% of sales revenue for this product.

Both products will be sold at the prices assumed in the budget. Kongoni Ltd has a cost of capital of 2% per month. No stocks will be held.

Required.

(i) Calculate the sales revenue at which operations will break-even for each process (manual and computer-aided) and calculate the sales revenues at which Kongoni Ltd will be indifferent between the two processes assuming:

(1) If Product A alone is sold. **(4 Marks).**

(2) If A and b units are sold in the ratio of 4:1, with B being sold on credit. **(6 Marks).**

(c) Eldoret Millers wish to calculate an operating budget for the forthcoming period. Information regarding products ,costs and sales levels is as follows:

Product	X	Y
Material required		
P (Kg)	4	6
Q(Litres)	2	8
Labour Hours required		
Skilled(hours)	8	4
Semi skilled	4	10
Sales level (Units)	4,000	3,000
Opening Stocks (Units)	200	400

Closing stock of materials and finished goods will be sufficient to meet 12% of demand. Opening stocks of material P was 500 Kg and for material Q was 1800 Litres.Material prices are Kshs 20 per kg for material P and Kshs 15 per litre for Material Q.
Labour costs are Kshs 25 per hour for the skilled workers and Ksh 16 per hour for the semiskilled workers.

Required.

Prepare the following budgets:

(i) Production (Units).
(ii) Material Usage (Kg and litres).
(iii) Material Purchases (Kg,Litres and Kshs).
(iv) Labour (Hours and Kshs). **(12 Marks).**

SECTION B.

QUESTION TWO.

Eagle Enterprises Ltd produces a single product.Variable manufacturing overhead is applied to products on the basis of direct labour hours.The Standard costs for one unit of product are as follows:

Direct Material:6 grams at Shs 5 per gram	Shs 30
Direct Labour:1.8 hours at Kshs 100 per hour	Shs 180
Variable Manufacturing Overhead:1.8 hours at Shs 50 per hour	Shs 90
Total Standard variable cost per unit	Shs 300

During June, 2200 units were produced. The costs associated with June operations were as follows:

Material Purchased:18,000 grams at shs 6 per gram	Shs 108,000
Material used in production:14,000 grams	-
Direct Labour:4,000 units at Shs 98 per hour	Shs 392,000
Variable Manufacturing overhead costs incurred	Kshs 20,800

Required.

Compute the Materials, Labour and Variable Manufacturing Overhead Variances

(20 Marks)

QUESTION THREE.

(a) In an effort to increase sales and profit, the Management of Savanna Ltd is considering the use of a higher quality Machine.

The higher quality Machine would increase variable costs by Shs 30 per unit but Management could eliminate one staff member (Supervisor) who is paid a salary of Kshs 300,000 per year. The Sales Manager estimates that the higher quality Machine would increase annual sales by at least 20 percent.

(i) Assuming that changes are made as described above, prepare a projected profit and loss account for next year. Show data a total, per unit and percentage basis. **(8 Marks)**

(ii) Compute the Company's new break-even point in both units and shillings of sales. **(6 Marks).**

(iii) Would you recommend that the above changes are made? **(2 Marks).**

(b) Highlight the assumptions underlying C.V.P analysis. **(4 Marks).**

QUESTION FOUR.

Tysons Ltd are considering a project that would have an eight year life and require Kshs 1,600,000 investment in equipment. At the end of eight years, the project would terminate and the equipment would have no salvage value. The Project would provide profit each year as follows:

Sales		Kshs 3,000,000
Less Variable expenses		Kshs 1,800,000
Contribution Margin		Kshs 1,200,000
Advertising, Salaries and other		
Fixed out of Pocket costs.	Kshs 700,000	
Depreciation	Kshs 200,000	
Total Fixed Expenses		Kshs 900,000
Profit		**Kshs 300,000**

Required.

(a) Compute the net annual cash flow from the project. **(6 Marks).**

(b) Compute the Project's Net Present Value. **(6 Marks).**

(c) Compute the Project's Internal Rate of return. **(6 Marks).**

(d) Give your decision on whether the project is acceptable or not. **(2 Marks).**

QUESTION FIVE.

(a) Describe the four steps in the planning and control cycle. **(8 Marks).**

(b) What is a budget Committee? Briefly explain its relevance in the budget making process. **(4 Marks).**

(c) Explain the usefulness of a product's Contribution Margin ratio in operations. **(4 Marks).**

(d) Highlight the importance of Variance analyses to a firm. **(4 Marks).**