(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2021/2022 ACADEMIC YEAR

SECOND YEAR FIRST SEMESTER

SPECIAL/SUPPLEMENTARY EXAM

FOR THE DIPLOMA IN BUSINESS MANAGEMENT

COURSE CODE: DAB104

COURSE TITLE: MANAGEMENT ACCOUNTING

DATE: 20TH JULY,2022 **TIME:** 8.00AM - 10.00AM

INSTRUCTIONS TO CANDIDATES

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

2.Question **one** carries **30**marks and each of the other two questions carry **20** marks each.

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

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SECTION A

QUESTION ONE

a. Distinguish management accounting from financial accounting. (5 Marks)

b. Explain five different bases of cost classification (8 Marks)

c. Prepare the cost sheet to show the total cost of productionand cost per unit of goods manufactured by a company for the month ofJuly 2005. Also find out the cost of sales.

Stock of raw materials 1-7-2015	3,000
Raw materials purchased	28,000
Stock of raw materials 31-7-2015	4,500
Manufacturing wages	7,000
Depreciation of plant	1,500
Loss on sale of a part of plant	300
Factory rent and rates	3,000
Office rent	500
General expenses	400
Discount on sales	300
Advertisement expenses to be fully charged	600
Income-tax paid	2,000

The number of units produced during July, 2015 was 3,000.
The stock of finished goods was 200 and 400 units on 1-7-2015 and 31-7-2015 respectively. The total cost of units on hand on 1-7-2005 was Sh.2, 800. All these have been sold during the month. (10 Marks)

d. Write short notes on the following.
   i. Budgetary control
   ii. Cost Volume Profit Analysis
   iii. Margin of safety
   iv. Master budget

(7 Marks)

(Total 30 Marks)

SECTION B

QUESTION TWO

Omondi& Ltd manufactures a product whose standard variable cost is given below:

Direct materials (2 kg @ Sh 3)	6
Direct labour (0.75 hours @ Sh 4)	3
Variable overheads	1

The company treats fixed costs as period costs and therefore they are not charged to products. The following information relates to the month of March 2011.

	1/3/2011	31/3/2011

	Sh	Sh
Stocks (all at standard cost)		
Raw materials	12,000	6,000
Finished goods	36,000	42,500

The following information is available for the month of March 2001:

	Sh
Sales @ Sh 20 per unit	200,000
Material purchases @ Sh 3.50 per kg	42,000
Direct labour cost (8000 hours)	30,000
Variable overheads	12,000
Material price variance (adverse)	21,000

The management is wondering whether they could have performed better.

Required:
Calculate the following variances in each case stating two possible causes:

a) Material usage variance (6 marks)
b) Labour rate variance. (4 marks)
c) Labour efficiency variance. (4 marks)
Variable overhead expenditure variance: (3 marks)
d) Variable overhead efficiency variance. (3 marks)

(Total: 20 marks)

QUESTION THREE

a) Describe the duties of a cost accountant in an organization. (4 marks)
b) Differentiate the following terminologies:
   (i) Relevant costs and irrelevant costs (4 marks)
   (ii) Cost center and cost unit. (4 marks)
   (iii) Semi-fixed and semi variable costs. (4 marks)
   (iv) Sunk costs and product costs (4 marks)

(Total 20 marks)

QUESTION FOUR

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 2011

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

The following changes are expected to occur during the year ending 30 September 2012:

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 FIVE

(a) Define the term "cash budget" and explain two functions of a cash budget.(5 marks)

(b) The Confederation of Trade Unions of Kenya (CTUK) has announced that it will call a general strike for all production workers in textile industry. The strike will commence at the beginning of week 3 of the year beginning 1 January 2004 and is expected to continue at least for four weeks. Agoatex Ltd. a garment manufacturing company will be one of the firms that will be affected by the total interruption of supply of raw materials. The following information is available for Agoatex Ltd. for the year beginning 1 January 2004.

	Week 1 Units	**Week 2 Units**	**Week 3 Units**
Budgeted sales	40,000	50,000	40,000
Budgeted	60,000	40,000	Nil

production

The budgeted sales will continue to be made during the period of interruption until stock of finished goods is exhausted. Production will stop at the end of the second week. The current stock level of finished goods is 60,000 units. Stocks of work-in-progress (WIP) is not carried.

The product sells at Sh. 600 and the budgeted manufacturing cost is made up as follows:

	Sh.
Direct materials	150
Direct wages	70
Variable overheads	80
Fixed overheads	180
Total	480

The company operates a full absorption costing system and the fixed overhead absorption rate is based upon a budgeted fixed overhead of Sh. 9,000,000 per week. Included in the total fixed overheads is Sh. 7,000,000 per week for depreciation of equipment. During the period of interruption, direct wages and variable overheads will not be incurred and the cash expended on fixed overheads will be reduced by Sh. 1,500,000 per week.

The current stock of raw materials is worth Sh. 7,500,000. It is intended that these stock should increase to Sh. 14,000,000 by the end of week 1 and then remain at this level during the period of the strike. All direct materials are paid one week after they have been received. Direct wages are paid one week in arrears. It should be assumed that all relevant overheads are paid for immediately the expense is incurred. All sales are on credit, 70% of the sales value is received in cash from the debtors at the end of the first week after the sales have been made and the balance at the end of the second week.

The current amount outstanding of materials suppliers is Sh. 8,000,000 and direct wages accruals amount to Sh. 3,200,000. Both of these will be paid in week 1. The current balance owing from debtors is Sh. 31,200,000 of which Sh. 24,000,000 will be received during week 1 and the remainder during week 2. The current balance of cash at bank and in hand is Sh. 1,000,000.

Required:

A cash budget for weeks 1 to 6 showing the balance of cash at the end of each week together with a suitable analysis of the receipts and payments during each week.

(15 marks)

(Total: 20 marks