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Knowledge for Development

UNIVERSITY REGULAR EXAMINATION

2013/2014 ACADEMIC YEAR

SEMESTER EXAMINATION

COURSE CODE: DAB 104

COURSE TITLE: MANAGEMENT ACCOUNTING

DATE: 14TH AUGUST,2014 **TIME: 9:00A.M.-11:00A.M.**

INSTRUCTIONS

Answer questions ONE (compulsory) and any other THREE questions

Question one

a) Outline the purposes of information provided by management accounting to the management (5 marks)

b) Outline the difference between financial Accounting and Management accounting (5 marks)

c) Outline the steps of cost Estimation (5 marks)

d) Outline the assumptions of CVP analysis (5 marks)

e) Highlight the importance of budgeting (5 marks)

Question two

a) Define margin of Safety (MOS) (2 marks)

b) Bingwa Company produces two products P and Q and has provided the following information relating to product P and Q

	P	Q
	Shs	shs
Selling price per unit	10	12
Variable cost per unit	2	8
Fixed cost	50,000	34,000

Required

i) Calculate the BEP of each product in units and in shillings (4 marks)

ii) Calculate the margin of safety of budgeted sales at 10,000 units each (4 marks)

iii) Compute the profit at each product if sales in unit are 20% above the BEP (5 marks)

Question three

a) Assume that the production manager of Nzoia sugar company is concerned about the current fluctuation in the efficiency and therefore want to determine how labour cost is related to volume. The result of the 12 most recent weeks are shown below

Week number	Number of units (x)	Labour cost (y)
1	34	340
2	44	346
3	31	287
4	36	262
5	30	220
6	49	416
7	39	337
8	21	180

9	41	376
10	47	295
11	34	215
12	24	275

Required

i) Establish a cost function using the high – low method (12 marks)

ii) Assume that the number of units we expect to produce in the next period is 50. Estimate the labour cost to be incurred in that period. (3 marks)

Question four

a) Lamu Limited has to choose which one of the two projects to undertake. The initial cost of investment for project X is shs 320,000 and project Y is shs 240,000. The cash flows of each project would be as follows:-

Year	**Project X**	**Project Y**
1	80,000	120,000
2	80,000	100,000
3	120,000	100,000
4	120,000	80,000
5	30,000	(20,000)

Required:

Using NPV at a discount rate of 14% advice the investor on which project to invest in (10 marks)

b) Highlight five disadvantages of using payback method in traditional method of Capital Budgeting (5 marks)

Question Five

a) Highlight six assumptions of EOQ (6 marks)

b) A company uses 50,000 nuts per annum which are shs 10 each to purchase. The ordering and handling costs are shs 150 per order and carrying costs are 15% of purchase price per annum.

Required:

i) Calculate the EOQ (3 marks)

ii) Annual Number of orders (3 marks)

iii) Total Cost (3 marks)