KIBABII UNIVERSITY COLLEGE
FACULTY OF EDUCATION AND SOCIAL SCIENCES
DEPARTMENT OF: BUSINESS MANAGEMENT

Course code: DAB 104

MANAGEMENT ACCOUNTING

MAIN EXAM

Question one is Compulsory

QUESTION ONE

1 a) Differentiate between Accounting and management accounting (10mks)

b) In spite of rapid expansion and growth, the management of Magicross Ltd are concerned that although the accounts presented disclose profits being made, the company's overdraft has been increasing.

Required:
As the Company's management Accountant, draft a report to management;

1. Detailing factors that can cause an increase in bank overdraft in the face of increasing profitability. (8 marks)
2. Giving options available for improving the company's liquidity without seeking external funds. (7 marks)

(Total: 25 marks)

CHOOSE ANY THREE QUESTIONS
QUESTION TWO

1. The Executive Furnitures Ltd. (EFL) produces a unique type of computer desks. Four of EFL's main outlets are S_1, S_2, S_3, and S_4. These outlets already have requirements in excess of the combined capacity of its three production plants P_1, P_2, and P_3. The company needs to know how to allocate its production capacity to maximize profits.

Distribution costs (in Sh.) per unit from each production plant to each outlet are given in the following table:

		To			
		S_1	**S_2**	**S_3**	**S_4**
		Sh.	**Sh.**	**Sh.**	**Sh.**
	P1	220	240	220	360
From	P2	240	200	180	280
	P3	260	200	260	240

Since the four outlets are in different parts of the country and as there are differing transportation costs between the production plants and the outlets along with slightly different production costs at different production plants there is a pricing structure which enables different prices to be charged at the four outlets. Currently, the price per unit charged is Sh.2,300 at S_1, Sh.2,350 at S_2, Sh.2,250 at S_3, and Sh.2,400 at S_4. The variable unit production costs are Sh.1,500 at plants P_1 and P_3 and Sh.1,550 at plant P_2. The demand at S_1,S_2,S_3

and S_4 are 850, 640, 380 and 230 desks respectively while the plant capacity at plant P_1, P_2 and P_3 are 625, 825 and 450 desks respectively.

Required:

Using the transportation algorithm, determine the contribution to profit for the optimal allocation.
(15 marks)

(Total: 15 marks)

QUESTION THREE

a) State and explain five assumptions that underlie the cost-volume-profit analysis. (9 marks)

b) Explain the meaning and significance of the following terms in the context of the cost-volume –profit analysis:
   i) Relevant range. (2 marks)
   ii) Sensitivity analysis. (2 marks)
   iii) Contribution margin per unit. (2 marks)

(Total: 20 marks)

QUESTION FOUR

Kiwanda Limited is considering the purchase of a new machine. Two alternative machines, Pesi TZO and Upesi MO2, which will cost Sh.6,000,000 and Sh.7,000,000 respectively are available in the market. The cash flow after taxation of each machine are as follows:

	Cash flow	
Year	**Pesi TZO**	**Upesi MO2**
	Sh.	**Sh.**
1	600,000	1,800,000
2	1,800,000	2,400,000
3	2,000,000	3,000,000
4	3,000,000	1,800,000
5	2,400,000	1,600,000

Required

a) Compute the net present value of each machine. (9 marks)

b) Enumerate the advantages and disadvantages of N.P.V (6 mks)

QUESTION FIVE

a) "In practice there is no cost that can be described as, entirely and always variable or fixed."
Comment on the above statement. (5 marks)

b) Kenya Auto Assemblers Ltd assembles cars from imported knocked-down-kits. The company has been operating at 60% capacity, assembling 3,000 cars per year.

The following information relates to the company's operations at two different levels of capacity.

	Level of activity	
	60%	80%
Costs	Sh '000'	Sh '000'
Direct materials	600,000	800,000
Direct labour	150,000	200,000
Indirect labour	200,000	240,000
Factory fuel and power	10,000	130,000
Factory repairs	130,000	155,000
Total cost	1,180,00	1,525,000

Required:
Using the high-low method, establish the cost equations of the for y = a +bx for each of the following costs for the company.

1. Direct materials (2 marks)
2. Direct labour. (2 marks)
3. Indirect labour. (2 marks)
4. Factory fuel and power. (2 marks)
5. Factory repairs. (2 marks)

(Total: 15 marks)

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MANAGEMENT ACCOUNTING

SUPPLEMENTARY EXAM

Question one is Compulsory

QUESTION ONE

In spite of rapid expansion and growth, the management of Magicross Ltd are concerned that although the accounts presented disclose profits being made, the company's overdraft has been increasing.

Required:
As the Company's management Accountant, draft a report to management;

3. Detailing factors that can cause an increase in bank overdraft in the face of increasing profitability. (10 marks)
4. Giving options available for improving the company's liquidity without seeking external funds. (15 marks)

(Total: 25 marks)

CHOOSE ANY THREE QUESTIONS

QUESTION TWO

a) What is the basic difference between account classification method and high-low method as applied in cost estimation? (3 marks)

b) Distinguish between the following cost accounting terminologies:
   i) Direct and indirect costs (4 marks)
   ii) Cost center and cost unit (4 marks)
   iii) Period costs and product costs (4 marks)

(Total: 15 marks)

QUESTION THREE

a) Explain the advantages of the Just-in-time inventory system. (3mks)

b. Explain briefly the limitations of economic order quantity. (4 marks)

c. Bidii Enterprises is located at Kariobangi Light Industries area in Nairobi. The company manufactures a product 'Comex' which is used in the building industry. The main raw material used in the manufacture of 'Comex' is material B42000.

The following information relates to material B42000.

Annual requirements:	144,000 units
Ordering costs:	Sh. 12,500 per order

Annual holding costs:	20% of the purchase price
Purchase price per unit:	Sh. 500
Safety stock requirement:	None

Required:

(i) The economic order quantity. (2 marks)

(ii) The number of orders needed per year. (2 marks)

(iii) Total cost of ordering and holding material B42000 per year. (4 marks)

(Total: 15 marks)

QUESTION FOUR

The following six have been submitted for inclusion in 1998 capital expenditure budget for Limuru Ltd.

	Year	A Sh.	B Sh.	C Sh.	D Sh.	E Sh.	F Sh.
Investment	0(1998)	250,000	250,000	500,000	500,000	500,000	125,000
	1	0	50,000	175,000	0	12,500	57,500
	2	25,000	50,000	175,000	0	37,500	50,000
	3	50,000	50,000	175,000	0	75,000	25,000
	4	50,000	50,000	175,000	0	125,000	25,000
	5	50,000	50,000	175,000	0	125,000	
Per year	6 - 9	50,000	50,000		500,000	125,000	
	10	50,000	50,000			125,000	
Per year	11 – 15	50,000	50,000				
Internal rate of return		14%	?	?	?	12.6%	12.0%

Required:

(a) Compute the N.P.V of each project using 16% as discount rate and rank all projects. (15 marks)

QUESTION FIVE

c) "In practice there is no cost that can be described as, entirely and always variable or fixed."
Comment on the above statement. (5 marks)

d) Kenya Auto Assemblers Ltd assembles cars from imported knocked-down-kits. The company has been operating at 60% capacity, assembling 3,000 cars per year.

The following information relates to the company's operations at two different levels of capacity.

	Level of activity	
	60%	80%
Costs	Sh '000'	Sh '000'
Direct materials	600,000	800,000
Direct labour	150,000	200,000
Indirect labour	200,000	240,000
Factory fuel and power	10,000	130,000
Factory repairs	130,000	155,000
Total cost	1,180,00	1,525,000

Required:
Using the high-low method, establish the cost equations of the for y = a +bx for each of the following costs for the company.

1. Direct materials (2 marks)
2. Direct labour. (2 marks)
3. Indirect labour. (2 marks)
4. Factory fuel and power. (2 marks)
5. Factory repairs. (2 marks)

(Total: 15 marks)