

LAIKIPIA



UNIVERSITY

# UNIVERSITY EXAMINATIONS

1<sup>ST</sup> SEMESTER 2023/2024 ACADEMIC YEAR

SECOND YEAR EXAMINATION FOR THE DEGREE  
OF BACHELOR OF COMMERCE

**BCOM 212: MANAGEMENT ACCOUNTING I**

***STREAM:***

***TIME: 2 HRS***

***DAY: WEDNESDAY [11.30-13.30 P.M]***     ***DATE: 13/12/2023***

**THIS QUESTION PAPER CONSISTS OF THREE (3) PAGES**

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**INSTRUCTIONS**

Answer question **one** and any other **two** questions

**QUESTION ONE** (30 marks)

- a) i) State **four** differences between Management Accounting and Financial Accounting (4 marks)
- ii) Differentiate between relevant costs and irrelevant costs (2 marks)
- iii) Differentiate between variable costs and fixed costs (2 marks)
- iv) What is a cost driver as used in cost estimation. (2 marks)
- b) The annual demand for material DM12 is 4,000 units and the purchase price is sh. 90 per unit. The incremental cost of processing an order is sh. 135 and the cost of storage is estimated to be sh. 12 per unit p.a.

**Calculate:**

- i) Economic order quantity (2 marks)
- ii) The total amount of inventory cost under the EOQ model. (4 marks)
- iii) A supplier is giving a special offer of 4000 units at a price of sh. 86 to be delivered immediately.  
Calculate the annual stock costs, assuming there would be no incremental cost of placing this order and advice the management whether or not to take the special offer. (4 marks)
- c) The direct labour cost of a unit of product B is as follows:  
3 hours of grade T labour at Ksh.25 @hour  
During October 2023, 300 units of product B were made and the labour cost of grade T was Ksh. 22,000 for 910 hours.

During the month, there was a machine breakdown and 40 hours were recorded as idle time.

**Required**

- i) The direct labour rate variance (3 marks)
- ii) The idle time variance (3 marks)
- iii) The direct labour efficiency variance (3 marks)
- iv) The direct labour total cost variance (1 marks)



**QUESTION TWO**

The following data has been extracted from the books of Ngata Bridge enterprises for the year ended 30<sup>th</sup> June 2023.

Production	30,000 units
Sales	24,000 units
<u>Production costs</u>	<b>sh. 000</b>
Direct material	7,200
Direct labour	1,800
Variable production overheads	1,500
Fixed production overheads	2,700
<u>Selling and administration costs:</u>	
Sales staff salaries	450
Sales commission	300
Promotion and advertising	480
Administrative fixed costs	720

Selling price per unit is sh.750

**Required:**

- Income statement for the year ended 30<sup>th</sup> June 2023 using variable costing approach. **(8 marks)**
- Income statement for the year ended 30<sup>th</sup> June 2023 using absorption costing approach. **(8 marks)**
- Reconcile the two profits above. **(4 marks)**

**QUESTION THREE**

The following data from lochugwa engineering enterprises relate to the year ended 30<sup>th</sup> June 2023

	Month	Machine hours	Fuel oil expenses
		"000"	Sh. "000"
<b>2022</b>	July	34	640



	August	30	620
	September	34	620
	Oct	39	590
	Nov	42	500
	Dec	32	530
<b>2023</b>	Jan	26	500
	Feb	26	500
	Mar	31	530
	Apr	35	550
	May	43	580
	June	48	680

**Required**

Estimate the variable and fixed cost elements of the fuel oil expenses ( $Y = mX + C$ ) using the following methods:

- High low method **(8 marks)**
- Simple linear regression analysis, **(8 marks)**
- Predict the fuel oil expense for December 2023 if experience indicates that 41,000 machine Hours will be used using the two methods (a) and (b) above. **(4 marks)**

**QUESTION FOUR**

A company makes a single product with a sales price of sh. 1,000 and a variable cost of sh. 600. Fixed costs are sh. 6,000,000 p.a.

Calculate:

- Contribution per unit **(2 marks)**
- c/s ratio **(2 marks)**
- Break-even in units and value. **(4 marks)**
- Budgeted sales in units to earn a target profit of sh. 2,100,000 net of 30% corporation tax. **(6 marks)**
- Calculate the margin of safety (M.O.S) from (d) above. **(2 marks)**



- (f) Because of increasing costs, the marginal cost is expected to rise to sh650 @ unit and fixed cost to sh. 6,800,000. The selling price is expected to decrease by 6%. What would be the expected new level of output to maintain the same target profit of sh. 2,100,000 net of tax. **(4 marks)**

**QUESTION FIVE**

The following information relates to processes A and B for the month to 31<sup>st</sup> October, 2023:

**Process A:**

- A 6,000kg batch of material A is mixed with recycled scrap in the proportions of 6: 1 respectively. Material A cost sh.8 per kg. The recycled scrap is transferred from the scrap stock account at its resale value.
- Conversion costs (labour and overhead) total sh.14,400.
- Normal losses are 20% of input to the process. All losses are available for resale or recycling at sh.2 per kg.
- 5,200kg of intermediate product are transferred to process Y.
- There is no opening or closing work-in-progress.

**Process B:**

- Material K is issued from stores to be mixed with the transfers from process X on the basis of 1kg of K for every 2 kg transferred from process X. Material K costs sh.2.50 per kg.
- Conversion costs total sh.22,800.
- Packing material is added immediately before transfer of output into finishing goods store at a cost of sh.0.50 per kg of product packed.
- Normal losses are 10% of all input material processed. All losses are available for resale at sh.3 per kg.
- 7,100kg of product are transferred into finished goods store.
- There is no opening or closing work-in-progress.

**Required:**

- Process A account. **(10 marks)**
- Process B account. **(10 marks)**

