

CHUKA



UNIVERSITY

## UNIVERSITY EXAMINATIONS

## EXAMINATION FOR THE AWARD OF DIPLOMA IN ACCOUNTING

## DIAC 0113: MANAGEMENT ACCOUNTING I

STREAMS:

TIME: 2 HOURS

DAY/DATE: THURSDAY 13/04/2023

8.30 A.M. – 10.30 A.M.

## INSTRUCTIONS

Answer Question ONE and any other TWO Questions

Do not write on the question paper

## QUESTION ONE (30 MARKS)

a) Discuss cost classification according to the criteria below:

- |                                     |           |
|-------------------------------------|-----------|
| i. By function                      | (3 marks) |
| ii. By controllability              | (2 marks) |
| iii. By traceability to the product | (3 marks) |
| iv. By time                         | (2 marks) |

b) XYZ Ltd provided the following information with respect to their product 'EXE'.

Estimated fixed cost	Ksh 1,200,000
Contributing margin	Ksh 200 per unit
Selling price	Ksh 400 per unit

**Required:**

- |  |           |
|--|-----------|
| i. Compute the break-even point for the product in both units and shillings.             | (3 marks) |
| ii. Compute the margin of safety if the company budgets to sell 8,000 units.             | (3 marks) |
| iii. How many units should be produced and sold to earn before tax profit of Ksh 120,000 | (3 marks) |

- iv. If the company is in a 40% tax bracket. How many dispensers should be sold to earn Ksh. 180,000 after tax profit? (3 marks)
- c) The production manager of XYZ Ltd. is concerned about the apparent fluctuation in production effectively and wants to determine how labour cost (in Sh) is related to production volume (units). The following data presents results of the 8 most recent weeks.

Week	No. of Units (X)	Total cost sh '000' (Y)
1	34	340
2	44	346
3	24	287
4	36	262
5	30	220
6	49	416
7	39	337
8	21	180

Required:

- i. Estimate the cost function using regression analysis method (8 marks)
- ii. Estimate the total cost of production on 50 units produced using function in (i) above (2 marks)

**QUESTION TWO (20 MARKS)**

- a) Explain three types of standards as used in standard costing (6 marks)
- b) The following information was extracted from the actual and standard cost records of XYZ Ltd for the year ended 31<sup>st</sup> December, 2020.

	Units
Normal capacity	25,000
Actual sales	23,500
Actual production	24,000

Standard costs:	Sh. Per unit
Direct material	8
Direct wages	7
Variable manufacturing overheads	10
Variable selling and distribution overheads	2

	<b>Actual Costs Incurred Ksh.</b>
Fixed selling and distribution overheads	Sh.90,000
Fixed administrative overheads	Sh. 140,000
Fixed manufacturing overheads	Sh. 250,000

The company's unit selling price is Ksh. 55. Fixed manufacturing overheads are budgeted at sh. 250,000 per year. The company absorbs fixed manufacturing overheads on the basis of normal production capacity. There were no opening inventories at the start of the year and all production is finished within each year.

**Required:** Prepare

- i. Income statement under marginal costing approach (7 marks)
- ii. Income statement under marginal absorption approach (7 marks)

**QUESTION THREE (20 MARKS)**

a) Explain the following terms as they apply in processing industries:

- i. Normal wastage (2 marks)
- ii. Abnormal wastage (2 marks)
- iii. Joint products (2 marks)
- iv. By-products (2 marks)
- v. A product passes through two production processes A and B. The normal wastage in process A and B is 3% and 5% respectively. Scrap of process A is sold at Ksh. 25 per unit and that of process B at Ksh.50 per unit. 10,000 units were issued to process A at the beginning of October 2019 at a cost of Sh. 100 per unit.

The following data is also available:

	<b>PROCESS A</b>	<b>PROCESS B</b>
Additional Material Ksh.	100,000	150,000
Direct labour Ksh.	500,000	800,000
Direct expenses Ksh.	105,000	118,800
Actual output (units)	9,500	9,100

There was neither opening nor closing stocks

**Required: Prepare**

- i. Process accounts (6 marks)
- ii. Abnormal loss account (2 marks)

- iii. Abnormal gain account (2 marks)
- iv. Scrap Debtors account (2 marks)

**QUESTION FOUR**

- a) Discuss the role of management accounting in an organization (6 marks)
- b) Linda Furniture’s Ltd manufactures a wide range of home furniture. Recently, the company added to its range a sideboard. The standard cost specification for each sideboard is given below:

Material Timber	6kg at sh.280 per kg
Varnish	0.5 litres at sh.300 pe litre
Labour	8 hours at sh. 60 per hour

Budgeted variable overhead 40,000

During the month of September 2004, 620 sideboards were manufactured. The actual quantities and costs incurred were as follows:

	Quantity	Sh.
Material: Timber	45000kg	1,125,000
Varnish	290 litres	89,900
Labour hours	5200hrs	364,000
Actual variable overheads	sh. 42,000	

**Required:**

- i) Material price variance for each material and the total material price variance. (5 marks)
- ii) Material usage variance for each material and the total material usage variance (5 marks)
- iii) Labour efficiency variance (2 marks)
- iv) Labour rate variance (2 marks)