

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS**

**RESIT/SPECIAL EXAMINATION**

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF AGRIBUSINESS  
MANAGEMENT**

**AGBM 310: MANAGERIAL ACCOUNTING**

**STREAMS:**

**TIME: 2 HOURS**

**DAY/DATE: WEDNESDAY 12/09/2018**

**2.30 P.M. – 4.30 P.M.**

**INSTRUCTIONS:**

- (a) Explain five objectives of management accounting in an organization. [5 marks]
- (b) ABC company produces and sells one product “Q” whose selling price per unit is kshs.25 and variable cost per unit is kshs. 20. The total fixed costs for the period is kshs. 10,000

Required:

- (i) Determine the breakeven point in units and in shillings. [4 marks]
- (ii) How many units of products “Q” will have to be sold to earn an after tax profit of kshs 4900, assuming a corporate tax rate of 30%? [3 marks]

- (c) The following direct costs were incurred from job number J415 of radio Maisha company

	Ksh.
Direct materials	6010
Wages Dept A	60 hours @ 30/= per hour
Dept B	40 hours @ 20/= per hour
Dept C	20 hour @ 50/= per hour

Overheads of these three departments were estimated as follows

Variable overheads Costs (sh) Labour hours

Dept A	Sh. 15000	1500
Dept B	Sh. 4000	200
Dept C	Sh. 12000	300

Fixed overheads were estimated at sh. 40,000 for 2000 normal working hours.

**Required:**

Calculate the cost of Job no. J415 and the price to give a profit of 25% of the selling.

[7 marks]

- (d) Explain the benefits of budgeting in an organization. [5 marks]
- (e) The standard quantity of materials for producing 1 unit of product “P” is 5 kgs. The standard price is kshs. 6 per kg. during a particular period, 500 units were produced.

Actual material consumed was 2700 kgs at a cost of kshs. 5 per kg.

**Required:**

- (i) Material price variance. [2 marks]
- (ii) Material usage variance [2 marks] (iii) Total material cost variance [2 marks]

**QUESTION TWO**

- (a) State any four assumptions of break-even analysis. [4 marks]
- (b) Give reasons why marginal costing is more suitable for managerial decision making as compared to absorption costing. [4 marks]
- (c) The total cost and output volumes of a manufacturing company in the first 6 months of the year are as follows:

Month	Output “000” units	Total cost kshs. 000”
Jan	5	146
Feb	7	152
March	6	148
April	5	142
May	8	164
June	6	152

**Required:**

- (i) Estimate the cost function using high-low method. [4 marks]

- (ii) Estimate the cost function using regression analysis method. [8 marks]

**QUESTION THREE**

- (a) A company expects the following activity levels in May 2018

Sales                7000 units  
 Production                8500 units

There is no opening stock on 1<sup>st</sup> May 2018. Fixed overhead costs are based on normal capacity of 9600 units.

The budgeted unit selling price and total cost are as follows:

	Kshs. per unit
Selling price	45
Direct material	11
Direct labour	8
Production overhead (kshs. 3 variable)	7
Selling and administrative overhead (50% fixed)	10

**Required:**

- (i) Calculate the marginal production cost per unit and absorption production cost per unit of the product. [2 marks]
- (ii) Prepare comparative income statements using marginal costing and absorption costing techniques. [12 marks]
- (b) Explain the following standards
- (i) Direct costs and indirect costs [2 marks]
  - (ii) Cost unit and unit cost [2 marks]
  - (iii) Implicit cost and explicit cost [2 marks]

**QUESTION FOUR**

Chandu Cables Company Ltd makes a chemical that passes through three production processes 1, 2 and 3. In the month of August 2010, 6000 litres of the basic raw material priced at Shs.240,000 were introduced into process 1. Subsequently the following costs were incurred:

Element of Cost	Total Shs	Process		
		1	2	3
Direct Material (Additional)	87,500	<u>Shs</u> 30,000	<u>Shs</u> 40,000	<u>Shs</u> 17,500
Direct Labour	110,000	40,000	50,000	20,000
Direct Expenses	16,900	6,000	1,600	9,300

Normal loss per process was estimated as:

Process 1	10%
Process 2	5%
Process 3	8%

Output of each process was:-

Process 1	5300
Process 2	5000
Process 3	4700

The loss in each process represented scrap which could be sold at the following values:-

Process 1	Shs. 20 per unit
Process 2	Shs. 44 per unit
Process 3	Shs. 65 per unit

There was no stocks of materials or work-in-progress at the beginning or end of the month. The output of each process passes directly to the next process and finally to finished stock.

Production overhead is absorbed by each process on a basis of 50% of the cost of direct labour.

Required: Prepare separate process accounts for each of the three processes.

[15 marks]

Abnormal gain and abnormal loss accounts

[5 marks]

