

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS**

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

**AGBM 222: MANAGEMENT ACCOUNT**

**STREAMS: AGBM**

**TIME: 2 HOURS**

**DAY/DATE: MONDAY 17/12/2018**

**2.30 P.M. – 4.30 P.M.**

**INSTRUCTIONS:**

- Answer question ONE and any other TWO
- Do not write on the question paper

**QUESTION ONE**

- (a) Distinguish the following terminologies as applied in management accounting
- (i) Relevant and irrelevant costs [2 marks]
  - (ii) Cost unit and unit cost [2 marks]
  - (iii) Joint product and by-product [2 marks]
  - (iv) Cost centre and revenue centre [2 marks]
- (b) K-K Ltd has determined that its maintenance cost is primarily a function of machine hours worked in the various production departments. The maintenance cost incurred and the actual machine hours worked during the first five months of the year 2018 were as follows:

Month	Machine hours (Hours)	Maintenance cost (Ksh.)
January	1600	70,000
February	2400	90,000
March	800	30,000
April	3000	110,000
May	2000	85,000

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### Required:

1. Determine the estimated cost functions using:
  - (i) High low method [4 marks]
  - (ii) Regression analysis method [6 marks]
  - (iii) Coefficient of determination,  $R^2$  [4 marks]
2. (i) Using the regression function estimate obtained in (iii) above how much would have been incurred as maintenance cost if machine hours work expected to be 1200 in the month of June 2018? [2 marks]
- (ii) The maximum machine hours that would have been worked if maintenance cost had been limited to ksh. 200,000 in June 2018 [2 marks]
- (c) Highlight any four assumptions of break-even analysis [4 marks]

### QUESTION TWO

- (a) DAMCO ltd produces two products X and Z. The following budget has been prepared for the company

	X	Z	Total
Sales in units (sh)	240,000	80,000	320,000
Selling price per unit (sh)	10	20	
Variable cost per unit (sh)	8	6	

Total fixed cost for the period is sh. 600,000

### Required:

- Compute the break-even points for each of the products and for the whole company in units and in shilling. [7 marks]
- (b) Mavuno ltd manufactures and sell product Q. The standard production costs per unit of product Q are as follows:

Material X – 25 metres @ 1 sh. /metres	Sh. 25
Y – 10 kg @ 4 sh./kg	40
Labour; direct labour – 10 hrs @ 12.5/hr	125
Overheads; Variable sh.2.5/hr	25
Fixed sh. 3/hr	30

- The overheads are absorbed on the basis of direct labour hours
- The budgeted production for the year was 3500 units



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Actual production	28,000 units
Actual sales	26,000 units

Actual fixed overheads ksh. 22,000

Actual fixed selling overhead cost ksh. 10,000

There was no opening inventory at the beginning of the year and all variable costs were as per the budget.

### Required:

Prepare a profit and loss statement under marginal costing and absorption costing

[14

marks]

### QUESTION FOUR

- (a) Highlight five major differences between job costing and process costing methods of product costing. [5 marks]
- (b) Company 'R' manufactures a chemical that passes through three production process 1, 2 and 3. In the month of May 6000 litres of the basic raw material priced at sh. 240,000 were introduced in process 1. Subsequently, the following costs were incurred.

	Total	Process 1	Process 2	Process 3
Direct material	87,500	30,000	40,000	17,500
Direct labour	110,000	40,000	50,000	20,000
Direct expenses	16,900	6,000	1,600	9,300

Production overheads are absorbed by each process on the basis of 50% of direct labour cost.

Normal loss per process were estimated as follows:

Process 1 – 10%

Process 2 – 5%

Process 3 – 8%

Output of each process were:

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Process 1 – 5300 units

Process 2 – 5000 units

Process 3 – 4700 units

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

Process 1 – ksh. 20 per unit

Process 2 – ksh. 44 per unit

Process 3 – ksh. 65 per unit

There was no stock of material 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 the finished goods stock account.

**Required:**

Prepare separate process accounts for each of the three processes

[15 marks]

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