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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2020/2021 ACADEMIC YEAR FOUR**

**SECOND SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

**FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 402**

**COURSE TITLE: MANAGERIAL ACCOUNTING**

**EXAMINATION DURATION: 2 HOURS**

**DATE: 05/04/2021 TIME: 09.00-11.00 AM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FIVE (5) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other TWO (2) questions from the remaining FOUR (4) questions**
* **Use sketch diagrams to illustrate your answer whenever necessary**
* **Do not carry mobile phones or any other written materials in examination room**
* **Do not write on this paper**

**This paper consists of FIVE (5) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

1. Outline three differences between budgets and standards. (3 marks)
2. Daniel Mutiso, the Cost Accountant of Abra Ltd. feels that he is getting overworked and has recommended that a management accountant be employed to take up other responsibilities in the organization.However, the management of the company equally argues that the work is the same and that a decision to hire a management accountant is against their cost reduction policy.

**Required:**

In the light of the above statement, explain to the management three differences between management accounting and cost accounting to help them make a fair decision. (3 marks)

1. The information given below relates to Brutes Ltd which manufactures a single type of chemical. Overhead processing costs for the last 8 months have been as follows.

|  |  |  |
| --- | --- | --- |
| **Month** | **Machine hours** | **Overhead costs.****(Sh. “000”)** |
| 12345678 | 10,60017,0004,00021,00019,0007,80014,00012,000 | 12018070184178100172154 |

**Required;-**

Equation in form of y = a + bx using

1. High-low method. (7 marks)
2. Regression analysis method (7 marks)
3. Kisasa furniture is a small company specializing in the manufacture of wooden tables. Each table sells for Sh.240. During the months of September and October 2012 the following data was gathered from the company’s record.

|  |  |  |
| --- | --- | --- |
|  | **September** | **October** |
| Units producedCostsLabourWoodPolishElectricity Administrative costs Selling expenses Factory rent  | 5,000**Sh**276,000320,000100,00028,00044,000120,00088,000 | 7,000**Sh**380,000448,000140,00037,60057,600168,00088,000 |

**Required;-**

1. Total fixed costs and variable costs. (5 marks)
2. Break-even point in both units and sales revenue. (5 marks)

**QUESTION TWO**

1. Highlight six requirements for the efficient operation of a budgetary control system.(6 marks)
2. Mashauri limited operates a budget system. The following is the company’s profit forecast for a six-month period ending 31 August 2020:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **March****Sh. ‘000’** | **April****Sh. ‘000’** | **May****Sh. ‘000’** | **June****Sh. ‘000’** | **July****Sh. ‘000’** | **August****Sh. ‘000’** |
| Sales  | 440,000 | 460,000 | 420, 000 | 480, 000 | 440, 000 | 480, 000 |
| Raw materials used  | 164, 000 | 152,000 | 166, 000 | 182, 000 | 106, 000 | 152,000 |
| Rent Wages Factory expenses Sales commission  | 10, 00072, 00014, 00016, 000 | 10, 00064, 00014, 00018, 000 | 10, 00080, 00014, 00020, 000 | 10, 00088, 00014, 00022, 000 | 10, 00072, 00014, 00026, 000 | 10, 00072, 00014, 00024, 000 |
|  | **March****Sh. ‘000’** | **April****Sh. ‘000’** | **May****Sh. ‘000’** | **June****Sh. ‘000’** | **July****Sh. ‘000’** | **August****Sh. ‘000’** |
| Advertising expenses Administration expenses Depreciation Provision for doubtful debts  | 24,00074, 00020, 0008, 000 | 28, 00078, 00020, 0008, 000 | 20, 00096, 00020, 00010, 000 | 32, 00070, 00020, 0008, 000 | 40, 00084, 00020, 0008, 000 | 44, 00094, 00020, 00010, 000 |
| Total expenses  | 402, 000 | 392,000 | 436,000 | 446,000 | 380,000 | 440,000 |
| Net profit  | 38, 000 | 68, 000 | (16, 000) | 34, 000 | 60, 000 | 40, 000 |
| Closing stocks of raw materials  | 150, 000 | 128, 000 | 112,000 | 164, 000 | 94, 000 | 118, 000 |

**Additional information:**

1. The cash book showed an overdrawn balance of sh. 43,000,000 on 1 June 2020
2. Plant installation costs amounting to sh. 60,000,000 are due to in August 2020 while a loan repayment from a debtor of sh. 16,000,000 falls due in June 2020
3. Factory expenses are paid one month after they are incurred by the company
4. One eight of the wages amount is paid months in arrears
5. Three months’ rent is payable in advance on the first day of each quarter
6. Payment for raw materials is made two months after delivery
7. Two months credit is taken on advertising expense.
8. Administration expense are payable in the month in which they arise
9. A dividend and tax thereon will be paid in July 2020 amounting to sh. 50,000
10. Debtors are allowed three months credit
11. Sales commission is paid one month in arrears.

**Required:**

1. Cash budget for the period between 1 June 2020 and 31 August 2020. (10 marks)
2. State the control measures that the management should put in place in order to improve the cash position of the company. (4 marks)

**QUESTION THREE**

1. Explain the following methods of cost estimation
2. Industrial engineering. (4 marks)
3. Graphical method. (3 marks)
4. Account analysis. (3 marks)
5. Proget Ltd. manufactures a single product. The standard cost per unit is as follows:

|  |  |
| --- | --- |
|  |   **Sh.** |
| Direct materials Direct labourVariable selling cost  | 8302 |
|  | 40 |

**Additional information:**

1. The budgeted fixed production overheads per annum amount to Sh. 7,200,000.
2. The normal production level per annum is 2,400,000 units.
3. In the month of April 2013, the number of units produced and sold was 240,000 units and 200,000 units respectively.
4. The fixed selling cost per month amounts to Sh. 1,500,000.
5. The selling price per unit is Sh.50.
6. There are no opening inventories.

**Required:**

Income statement for the month of April 2013 using:

1. Absorption costing. (5 marks)
2. Marginal costing. (5 marks)

**QUESTION FOUR**

1. Understanding of cost behavior patterns is important in making financial planning and cost control decisions.

**Required:**

1. In relation to the above statement, describe three ways in which costs might be classified according to behavior. (6 marks)
2. Distinguish between Direct labour cost and indirect labour cost. (4 marks)
3. Tamu Ltd. manufactures three products namely; Exe, Wye and Zed. The following information relates to the company's budget for the first quarter of the financial year ending 31 December 2015:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Exe** | **Wye** | **Zed** |
| **Production and sales (units)** | **36,000** | **24,000** | **12,000** |
| Variable costs Fixed costs Total costs Net profit (25%) Selling price Total profits  | **Sh. (per unit)**16824630216,000 | **Sh. (per unit)**2414389.5047.50 228,000 | **Sh. (per unit)**46247017.5087.50210,000 |

**Additional information;-**

1. The above budget is based on full production capacity.
2. The factory manager proposes that if the whole production capacity was used to produce each product in turns, then at any given time, 24 units of Exe, 12 units of Wye and 9 units of Zed could be manufactured and that production switching costs would be negligible.
3. The sales manager reports that the maximum sales will be as follows:

|  |  |
| --- | --- |
| **Product**  | **Units** |
| Exe Wye Zed | 45,60030,00020,100 |

**Required**:

1. Advise the company on the optimum production mix. (6 marks)
2. Compute the total profits under the optimum production mix determined in (b) (i) above. (4 marks)

**QUESTION FIVE**

1. Highlight 3 advantages and 3 disadvantages of the NPV method.(6 marks)
2. The following information relates to three projects available to Salem ltd.

Year project project project

 R S T

 Sh. Sh. Sh.

0 (80, 0000) (80, 0000) (80, 0000)

1 40, 0000 50, 0000 48, 0000

2 50,000 80,000 10, 0000

3 120,000 110,000 54, 0000

4 640,000 520,000 90000

The company’s cost of capital is 12% p.a.

**Required:**

Using NPV method ranks the projects and advises the management on the project to invest in. (6 marks)

1. Afya Bora Health Centre has a capacity of 20 beds. The following information relates to the centre's operations for the year ended 30 June 2014:

|  |  |
| --- | --- |
|  | **Sh.** |
| Repairs and maintenance (Fixed)Rent per monthFood supplied to patients (variable)Laundry charges (variable)Medicines (variable)Other expenses (Fixed)Salaries per month: Supervisors Nurses Ward assistants | 150,000225,0001,080,000540,000900,0001,080,00030,00030,00015,000 |

**Additional information**:

1. The health centre operated for 300 days during the year. For 200 days, the bed occupancy accounted for 100% while the rest of the period accounted for 80% occupancy.
2. The health centre engaged external doctors to attend to the patients at an average fee of Sh.300, 000 per month. The doctors' fees were paid on the basis of number of patients attended by them.
3. During the year, 2 supervisors, 4 nurses and 2 ward assistants were engaged throughout.
4. Profit is loaded at a margin of 50%.

**Required**;-

1. Charge per day per patient. (5 marks)
2. Number of patient days required to break even. (3 marks)