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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY  
 UNIVERSITY EXAMINATION, 2016/2017 ACADEMIC YEAR  
 SECOND YEAR, SECOND SEMESTER EXAMINATION  
 FOR THE DEGREE OF BACHELOR OF SCIENCE  
 (BUSINESS ADMINISTRATION)**

Date: 12<sup>th</sup> August, 2016.  
 Time: 3.30pm – 5.30pm

**KAC 102 - INTRODUCTION TO MANAGEMENT ACCOUNTING**

**INSTRUCTIONS TO CANDIDATES**

**ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS**

**QUESTION ONE (30 MARKS)**

- a) XYZ COMPANY Ltd produces tubes for motor cycles. The following information was provided for the year 2014

Production	20,000 tubes	
Sales	15,000 tubes	
<b>Production Costs</b>		
Direct materials		Ksh.2,400,000
Direct labour		600,000
Variable Overhead		500,000
Fixed Overheads		900,000
<b>Selling and Administration</b>		
Sales Commission		250,000
General expenses		160,000
Overhead (fixed)		240,000

The company sells each tube at a price of Shs.300

Required ;

- i) Profit and Loss Account on the basis of absorption Costing (8 Marks)
- ii) Profit and Loss Account on the basis of Margin Costing (8 Marks)
- b) Differentiate between costing accounting and financial accounting (6 Marks)

- c) Explain briefly the following cost concept;
- i) Semi- Variable cost (3 Marks)
  - ii) Marginal Cost (3 Marks)
  - iii) Sunk cost (2 Marks)

**QUESTION TWO (20 MARKS)**

The cost of making component X is given as under;

	Ksh.
Material	100
Labour	60
Production OH	<u>50</u>
	210

40% of production overhead is variable overhead. This component could be bought at Shs.160 from an outside supplier.

Required :

- a) You are required to advise whether to make or buy this component (10 Marks)
- b) Describe briefly the organisation requirement for the preparation of a master budget in a organisation (10 Marks)

**QUESTION THREE (20 MARKS)**

The following information is given in relation to the operations of MMM Ltd.

	Ksh.
Sales	600,000
Variable	350,000
Fixed cost	150,000
Selling price per unit	120

Required

- a) A break -even chart (5 Marks)
- b) Contribution/sales graph (5 Marks)
- c) Show the margin of safety (5 Marks)
- b) Discuss the merit and demerits of absorption and marginal costing (5 Marks)

#### **QUESTION FOUR (20 MARKS)**

MMM ltd is trying to set up the selling prices of its product and the prices under consideration are Sh.4.00, Sh.4.30 and Sh.4.40. The demand is uncertain but this estimate has been made as follows;

Selling Price	Sh.4.00	Sh. 4.30	Sh. 4.40
Expected Sales vol.(Units)			
Best Possible (BP)	16,000	14,000	12,500
Most Likely (ML)	14,000	12,500	12,000
Worst Possible (WP)	10,000	8,000	6,000

The fixed cost is Sh.20,000 and the variable cost per unit is Sh.2.00

Required;

Advise the Management on the best price to set

- a) Maximax decision criterion (5Marks)
- b) Maxmin decision Criterion (5 Marks)
- c) Laplace Criterion of rationality (5 Marks)
- d) Minmax Regret Criterion (5 Marks)

#### **QUESTION FIVE (20 MARKS)**

- a) Assume that company A produces a single product and has the following budget

	Sh
Selling price	10
Direct Material	3
Direct Wages	2
Variable overhead	1
Fixed product OH	10,000
Production volume	5,000

Required;

Calculate the cost per unit to be used in stock valuation under;

- i) Absorption costing
- ii) Marginal costing

(10 Marks)

b) The standard cost for a production system in a given model is as follows;

inputs	Std Qty	Std price	Std cost limit
Material	3kg	4.00	2.00
Direct labour	21/2 hrs	14	35
Variable OH	21/2	3	7.5

During the month 6,500 kg of raw materials were purchased at sh.3.80 per kg and all the material was used to produce 2,000 units of finished products. 4,500hrs of direct labour time were used at a total cost of ksh.64,350. The actual variable overhead cost was sh.13,950

Required;

Compute the production variance

(10 Marks)