KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2011/2012

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE (AGRIBUSINESS MANAGEMENT & TRADE)

KBT 311: AGRIBUSINESS MANAGEMENT ACCOUNTING

DATE: Friday 30th March, 2012 **TIME:** 8.00 a.m. – 10.00 a.m

INSTRUCTIONS

Answer Question ONE and any other TWO Questions

Q.1) (a) Examine the difference between gross margin and contribution margin. (5 marks)

(b) Assume KU Ltd purchases raw material from an outside supplier at cost of Kshs.100 per Unit. The total annual demand for the product is 12,000 Units. The holding cost is Kshs.54 per Unit and the ordering cost is Kshs.60 per order. Calculate the Economic Order Quantity (EOQ) and the associated cost. (5 marks)

(c) Critically evaluate the main advantages of the Just-In-Time (JIT) inventory system. (5 marks)

(d) Assume that Brookside Ltd. is trying to set the selling price for one of its Milk products and three prices are under consideration, Kshs.40, Kshs.45 and Kshs.50. the following information is also provided

Alternatives	Kshs.40	Kshs.45	Kshs.50
Best possible	16,000	14,000	12,500
Most likely	14,000	12,500	12,000
Worst possible	10,000	8,000	6,000

Fixed cost = Ksh.200,000, Variable cost per Unit = Ksh.20. By use of Laplace Criterion of Rationality decision making criteria, advice the company on the best price to set. (5 marks)

(e) Discuss how the CVP analysis and breakeven analysis interrelated. (5 marks)

(f) A division in a company has a product costing Kshs.12 which is transferred within a group of sections. Calculate a transfer price for the division for each of the following mutually exclusive divisional targets:

(i) A net profit margin of 15%. (1 mark)

(ii) A net assets turnover rate of 14 and a region's return on capital employed (ROCE) of 20%. (2 marks)

(iii) An output of 150,000 Units, a capital employed of Kshs.1.5 million and an ROCE of 20%. (2 marks)

(g) Discuss briefly the main environment within which business decisions are made. (5 marks)

(h) Assume that Oserian Ltd. produces two products, fresh mangoes and dried mangoes and the following budge has been prepared.

Products	Fresh mangoes	Dried mangoes
Sales in units	120,000	40,000
Sales per Unit (Ksh/Unit)	5	10
Variable cost per unit (Ksh/Unit	4	4
Total fixed costs for both products (Kshs.)	200,000	

The company proposes to change the sales mix in units to 1:1 for dried mangoes and fresh mangoes. Advice the company on whether this change is desirable. (5 marks)

Q.2) (a) A company has budgeted sales of 200,000, a profit of 60,000 and fixed expenses of 40,000. Calculate contribution margin ratio. (5 marks)

(b) Discuss in detail the main steps of developing a cost estimating relationship. (10 marks)

Q.3) (a) Describe briefly the key assumptions of cost-volume profit analysis.(5 marks)

(b) The KU Company produces two products: mango juice and passion juice. The raw material requirements, space needed for storage, production rates and selling prices for these products are given below:

	PRODUCT	
	Mango Juice	Passion Juice
Storage space ($m2$/unit)	4	5
Raw material (kg/unit)	5	3
Production rat (units/hr)	60	30
Selling price (Ks/unit)	13	11

The total amount of raw material available [per day for both products is 1,575kg. The total storage space for all products is 1,500m^2, and a maximum of 7 hours per day can be used for production. As an accountant, help the company to determine how many units of each product to produce per day to maximize its total profit. (10 marks)

Q.4) (a) Assess the key differences between financial and managerial accounting. (5 marks)

(b) Kenyatta University farm sells two milk products cheese and yoghurt and with contribution margin ratios of 40 and 30% and selling prices of shs.50 and shs.35 a unit. Fixed costs amount to shs.100,000 a month. Monthly sales average 50,000 units of cheese and 60,000 units of yoghurt.

(i) Assuming that three units of cheese are sold for every four units of yoghurt, calculate the sales volume necessary to breakeven, in shillings and in units. (4 marks)

(ii) Calculate the margin of safety in sales shillings. (2 marks)

(iii) If the company spends an additional shs.10,600 on advertising, sales of cheese can increase to 60,000 units a month while sales of yoghurt fall to 45,000 units per month. (4 marks)

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