KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

BAC 300: MANAGEMENT ACCOUNTING 1

DATE: Monday, 12th February 2018 **TIME: 11.00 a.m. - 1.00 p.m.**

INSTRUCTIONS:

1) **ANSWER ALL THE QUESTIONS**
2) **MARKS ARE INDICATED FOR EACH QUESTION**

1. LM Limited makes and sells two products L and M. In the month of January 2018, data relating to the products were shown as follows:

Product	Sales (shs)	Variables (Shs)	Fixed cost
L	60,000	42,000	
M	60,000	30,000	
Total			36,000

Required:

a) Computation of Pr/ratio for each product. (5 Marks)

b) Computation of:

i) Pv/ratio of the company

ii) Break-even point and

iii) Profit for the company

When the sales revenue ratio of the two products is 60% for L and 40% for M.

(15 Marks)

c) Profit volume chart showing the break-even point when sales is shs.180,000 for the sales mixture. (5 Marks)

QUESTION TWO

FSN Limited produces a product by mixing two raw materials. The mixture for an order for a customer was set as follows:

Material	Standard mix	Standard cost per unit
L	40%	Sh.4
M	60%	Sh.3

The standard loss in process is 15%. In the month of January 2018, the company produced 1,700 units. The position of stock and purchases for the month is as provided:

Material	Stock	Stock	Purchases	
	1/01/2018	31/01/2018	Unit	Cost Sh
	Units	Units		
L	35	5	900	3,400
M	40	50	1,200	3,000

Required:

i) Material cost variance. (7 Marks)

ii) Price variance (3 Marks)

iii) Usage variance (7 Marks)

iv) Mix variance (7 Marks)

v) Yield variance (3 Marks)

vi) Verification of variances (2 Marks)

QUESTION THREE

a) Itemize and explain the six reasons behind capital budgeting. (12 Marks)

b) Using the data provided by Latif Limited below compute:

i) Discounted payback period

ii) Accounting rate of return

Latif Limited

Project	1	2
Cash Investment	Sh.150,000	Sh.200,000
Annual net inflow:		
Year 1	80,000	65,000
Year 2	33,000	43,000
Year 3	26,173	47,600
Year 4	22,000	53,000

At the end of the four periods, the machines are sold at shs.18,000 and sh.24,000 respectively. Cost of capital is estimated at 12%. (13 Marks)

4. FSN Limited realizes sales of sh.600,000 when operating at 80% of normal capacity. The company expenses are indicated as follows:

	Shs.
Office salaries	90,000
General expenses	2% of sales
Depreciation	7,500
Rent and rates	8,750
<u>Selling costs</u>:	
Salaries	7% of sales
Transport	2% of sales
Sales office	1% of sales
General expenses	1% of sales
<u>Distribution costs</u>:	
Wages	15,000
Rent	1% of sales
Other expenses	4% of sales

Required:

Draw up Flexible Administrative, selling and distribution cost budget, at 90%, 100% and 110% capacity of normal capacity. (25 Marks)