



MURANG'A UNIVERSITY OF TECHNOLOGY

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF COMMERCE

UNIVERSITY ORDINARY EXAMINATION

2017/2018 ACADEMIC YEAR

**THREE YEAR ONE SEMESTER EXAMINATION FOR THE BACHELOR OF
COMMERCE.**

HBC 2401 – MANAGEMENT ACCOUNTING

DURATION: 2 HOURS

DATE: 11TH DECEMBER, 2017

TIME: 9.00- 11.00 A.M.

Instructions to Candidates:

1. Answer **Question 1** and **Any Other Two** questions.
2. Mobile phones are not allowed in the examination room.
3. You are not allowed to write on this examination question paper.

SECTION ONE - COMPULSORY

QUESTION ONE

- (a) List and explain five reasons why classification of cost is necessary. (5marks)
- (b) What are the three Parametic method of estimating costs? (3 marks)
- (c) Martina Fernandez, the president of Fernandez Tools Company has asked for information about the costs behavior of manufacturing support. Specifically, she wants to know how these fixed support costs and the variable support costs behave so that she may be able to predict future costs. The following data are the only records available:-

Month	Machines Hours	Support Costs (Shs.)
May	850	9,000
June	1,400	12,500
July	1,000	7,900
August	1,250	11,000
September	1,750	13,500

Required:-

Using the High Low method of cost estimation:-

- i. Computer variable cost per unit; and the fixed cost? (4 marks)
- ii. Based on the figures calculated above; develop a cost estimate function ($Y=a+bx$) using High-Low method (5 marks)
- iii. Develop a cost function using the linear regression model. (10 marks)
- iv. If in October the machine is expected to run for 2,000 hours what would be the total support costs based on High- Low method? (3 marks)

SECTION TWO – ANSWER ANY TWO QUESTIONS

QUESTION TWO

- (a) Distinguish between the following terms as used in Managerial Accounting:-

- i. Overhead Appointment and Overhead Absorption. (3 marks)
- ii. Cost Allocation and Cost Allotment. (3 marks)
- (b) Equator Garments Ltd. manufactures custom-made suits tailored to the requirements of each customer. They use predetermined overhead absorption rates in allocating overheads to each job, in the cutting department, the rate is based on direct labour hours and in the stitching department the rate is based on machine hours. Equator Garments Ltd want to set overhead absorption rates to help in determining prices in the next financial year. The cost accountant has provided the following budgeting data for the next financial year.

	Cutting (Shs.)	Stitching (Shs.)
Direct Labour Cost	1,200,000	750,000
Factory overhead	1,500,000	1,620,000
Direct labour hours	50,000	30,000
Machine hours	-	40,000

Required.

- i. Calculate the overhead Absorption rates for each department. (6 marks)
- ii. The following data relates to job number A4.

	Cutting (Shs.)	Stitching (Shs.)
Direct materials	500	750
Direct labour hours	30	10
Machine hours	-	20

- Administration overheads are absorbed at the rate of 25% of factory cost.
- Profit mark-up is $33\frac{1}{3}$ on cost.

Required.

- i. Prepare a cost statement for job A4 showing the price that will be charged. (8 marks)

QUESTION THREE.

(a) In a manufacturing process we often come across the following terms:-

- i. Scrap
- ii. Abnormal loss
- iii. Split off point

Required

- i. Explain what each term means. (6 marks)
- b) Allied Chemical operates the second of the three processes of its plastic plant. Direct Material and conversion costs in thermos-assembly are added to the process evenly during process evenly during the process. The following data pertains to the Thermo assembly department for the month of May 2014

		(Shs.)	(Shs.)
	Units	Materials	Conversion
Opening WIP	80	493,360	91,040
Units input into process	500	1,620,003,220,0000	1,392,000

Output from the thermo-assembly plant is also given below;

Units completed in May 2014	460
Ending WIP for the month of May, 2014 in units	120
Percentage completion of WIP: Materials	60%
Conversion	30%

Required

- i. Calculate the equivalent units of production for the month of May using weighted average method. (6 marks)
- ii. Calculate the cost per equivalent unit for each of the two cost elements using the weighted average method. (4 marks)
- b) Assign costs to units of output and to Work In Progress account for the month of May 2014. (4 marks)

QUESTION FOUR

- (a) JL is preparing its cash budget for the next three months starting January 2017. The following data have been extracted from the operational budgets:-

Expected Sales Revenue	Kshs.
January	500,000
February	450,000
March	480,000

Budget Direct Material Purchases

January	138,000
February	115,200
March	115,600

Additional information is available as follows:-

1. JL sells 20% of its goods for cash. Of the remaining sales value, 70% is received within the same month as sale and 30% is received in the following month. It is estimated that trade receivables will be Kshs. 125,000 at the beginning of January. No bad debts are anticipated.
2. 50% of payments for direct material purchases are made in the month of purchase, with the remaining 50% in the month following purchase. It is estimated that the amount owing for direct material purchases will be Ksh. 60,000 at the beginning of January.
3. JL pays labour and overhead costs when they are incurred. It has been estimated that labour and overhead costs in total will be Kshs. 303,600 per month. This figure includes depreciation of Ksh. 19,600
4. JL expects to repay a loan of Ksh. 100,000 in March.
5. The cash balance at the beginning of January is estimated to be Kshs. 49,400

Required.

- i. Prepare a cash Budget for each of the three months. (15 marks)
- ii. List five limitations of Budgeting. (5 marks)

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