



Riara School of Business
Nurturing business innovators

SEPTEMBER- DECEMBER TRIMESTER, 2019
DAY PROGRAMME
EXAMINATION FOR BACHELOR OF BUSINESS ADMINISTRATION
RAC: 202: PRINCIPLES OF MANAGEMENT ACCOUNTING

DATE: 13TH DECEMBER, 2019

TIME: 2 HOURS

GENERAL INSTRUCTIONS:

Students are NOT permitted to write on the examination paper during reading time. This is a closed book examination. Text book/Reference books/notes are not permitted.

SPECIAL INSTRUCTIONS:

- 1 Write your REGISTRATION NO. clearly on the answer booklet(s).
- 2 Answer QUESTION ONE (COMPULSORY) and any other two.
- 3 Questions in all sections should be answered in answer booklet(s).
- 4 Marks allocated to each question are shown at the end of the question.
- 5 PLEASE start the answer to EACH question on a NEW PAGE.
- 6 For the questions, write the number of the question on the answer booklet(s) in the order you answered them.
- 7 Write your answers in paragraph form unless stated otherwise.
- 8 Keep your phone(s) SWITCHED OFF at the front of the examination room and NOT on your person.
- 9 Keep ALL bags and caps at the front of the examination room and do not refer to any unauthorized material before or during the course of the examination.
- 10 You are only allowed to leave the exam room 30minutes to the end of the Exam.

QUESTION ONE: COMPULSORY (30 MARKS)

- (a) Highlight **five** points that distinguishes management accounting from financial accounting **(5 Marks).**
- (b) Outline **three** differences between absorption and marginal costing **(3 Marks).**
- (c) Explain **three** cost estimation method **(6 Marks).**
- (d) Differentiate between the following terms:
 - (i) Fixed cost and variable cost **(2 Marks).**
 - (ii) Product cost and period cost **(2 Marks).**
 - (iii) Manufacturing cost and non-manufacturing cost **(2 Marks).**
- (e) The following information relates to XYZ Limited.

Machine hrs	50	30	10	50	40	30	20	60	40	20
Maintenance cost(Kshs.000)	120	110	60	150	100	80	70	150	110	50

Required:

- (i) Using the regression method compute the regression line ($y=a+bx$) **(8 Marks)**
- (ii) Estimate the maintenance cost when the company has used 15 machine hours **(2 Marks)**

QUESTION TWO

- (a) Differentiate between job costing and process costing **(4 Marks)**
- (b) A firm in industrial area processes products in two successive chemical processes. The output of process one is passed to process two for further processing. You are given the following information with regard to the month of April 2019:

Process one:

Material 3,000 kg at 25cents per kg

Labour Kshs.120

Process plant machine hours 12hours at Kshs.20 per hour

Process two

Material 2,000kg at 40 cents per kg

Labour Kshs.84

Process plant machine hours 20 hours at Kshs.13.50 per hour

Additional information

- General overhead amount to Kshs.357 and is absorbed into process cost on labor basis
- The normal output of process one is 80% of input and of process two 90% of input.
- Waste matter from process one is sold at 20 cents per kg and that from process two for 30 cents per kg.
- The output for April was as follows:
Process one 2,300kg
Process two 4,000kgs
- There was no opening inventory or work in progress at the beginning or the end of the month. In addition all the available waste has been sold.

Required:

- (i) Process one **(8 Marks)**
- (ii) Process two **(8 Marks)**

QUESTION THREE

- (a) A Kenyan Manufacturing Company makes use of 10,000 units of part No. X 300 as a component to assemble one of its products. It cost the company Kshs.18 per unit to produce it internally, computed as follows:

	Kshs.
Direct materials	45,000

Direct labour	50,000
Variable overheads	40,000
Fixed overheads	45,000
Total cost	<u>180,000</u>

An outside vendor has just offered to supply the part for Kshs.16 per unit. If the company stops producing this part, one third of the fixed overhead would be avoided.

Required: Should the company make or buy the product? **(5 Marks)**

(b) Highlight **seven** assumptions underlying the breakeven/cost-volume-profit analysis **(7 Marks)**

(c) ABC Ltd sells clock. The following data related to the month of January 2019.

Sales volume	20,000 units
Sales price	Kshs.25
<u>Unit variable costs</u>	
Variable manufacturing	Kshs.14
Variable selling and administrative	<u>Kshs. 1</u>
Total variable costs	<u>Kshs.15</u>
<u>Fixed costs</u>	
Fixed manufacturing	Kshs.100, 000
Fixed selling and administrative	<u>Kshs. 50,000</u>
	<u>Kshs.150, 000</u>

Required:

(i) Compute the breakeven point for the month of January 2019 **(3 Marks).**

(ii) The management targets a profit of Kshs.200, 000 in the month of February 2019. How many clocks should they sell? **(4 Marks).**

(iii) Compute the margin of safety **(1 Mark).**

QUESTION FOUR

(a) Explain **five** benefits of budgeting and budgetary control to a manufacturing business

(10 Marks).

(b) You are part of the team working in the production department. Your organization have identified a product in the market and you have been requested by the CEO to lead the team on advising the management on whether to adopt the product or not. With examples outline the key features to be analyzed in making the decision **(10 Marks).**