SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF COMMERCE

END-SEMESTER EXAMINATION

SEMESTER: JAN-MAY 2012

CODE: ACC 112A, B & T **UNIT- MANAGEMENT ACCOUNTING 1**

Answer **ALL** questions

Time: 2hrs 30Min

Question one

A) Kiwanda Limited is considering the purchase of a new machine. Two alternative machines, Pesi TZO and Upesi MO2, which will cost Sh.6, 000,000 and Sh.7, 000,000 respectively are available in the market. The cash flow after taxation of each machine are as follows:

	Cash flow	
Year	**Pesi TZO**	**Upesi MO2**
	Sh.	**Sh.**
1	600,000	1,800,000
2	1,800,000	2,400,000
3	2,000,000	3,000,000
4	3,000,000	1,800,000
5	2,400,000	1,600,000

Required

a) Compute the net present value of each machine. (8 marks)

b) Assuming that each machine represents a project:
Compute the return Kiwanda Limited expects to earn from each of the two projects. (10 marks)
Comment on the use of the results obtained in (a) and (b)(i) above in selecting between the two projects. (4 marks)

B) What are the features of a sound appraisal technique? (3 marks)

Question two

Zeke Ltd is preparing its annual budget for the year ended 30June 2009.It makes and sells one product for sh 200 per Unit .It is proposed to increase this to sh 220 per unit from1Januray 2009.The expected sales will be :

Quarter 1. 40,000 units

Quarter 2. 50,000units

Quarter 3. 30,000units

Quarter 4. 40,000 units

Sales for the quarter ending 30 September 2008 are expected to be 45,000 units.

Standard costs and usage of raw materials per unit of output are:

A 4 units at sh 5 per unit

B 3 units at sh 4 per unit

C 2 units at sh 10per unit

On 1 July 2008, the stocks are expected to be

Finished Goods		4,000 units
Material	A	4,000 units
Material	B	6,500 units
Material	C	1,000 units

At the end of each quarter ,closing stocks of finished goods are expected to be 10% of the next quarter's sales requirements. The year-end closing stocks of raw materials are expecting to show a 105 increase on the opening stocks.

Required:

(a) Prepare the following budgets for each quarter for the year ending 30 June 2009, and for the year in total.

(i) Sales budget (5marks)

(ii) Production budget (5marks)

(iii) Material usage budget (5marks)

(b) Prepare the material purchase budget for the year (5mks)

© Explain the difference between a fixed and flexible budget .State which is the more appropriate for budgetary control (5mks)

Question three

Atom Company is a manufacturer of toothpicks that sells directly to its customers. The Company has a maximum production capacity of 40,000 packets of toothpicks but due to liquidation of a major customer, the company has an excess capacity. The next few months the sales are expected to be 30,000 packets of toothpicks with a selling price of shs 50 per packet. The costs and revenues of a monthly activity of 40,000 packets of tooth picksis as follows:

	Shs
Direct Materials	400,000
Direct labour	350,000
Variable Overheads	300,000
Administration costs	260,000
Variable Selling and distribution costs	140,000
Fixed manufacturing costs	100,000
Total costs	1,550,000

Atom Company is expecting an upsurge in demand however with the excess capacity; it will not affect the direct labour costs if Company X has offered to sell the excess capacity at shs 30 per packet. They also need a logo inserted on the packet at a cost of shs 4 per packet. The administration costs incurred will not be affected at all.

Required:

a) Explain if Atom Company accept the offer of 10,000 packets of toothpicks? (7 Marks)

b) If atom Company was deciding whether to make or buy the 10,000 packets of toothpicks due to logistics problems and get from a supplier at a cost of shs28 per packet. The fixed manufacturing costs would be reduced by shs 20,000 per annum; direct labour costs would be avoidable and administration costs reduced by 20%. Should Atom Company make of buy the toothpicks (8 Marks)

c) If Atom wanted to calculate the breakeven point in dealing with toothpicks, how many sales should they anticipate from the original cost sheet of 40,000 (5 Marks)

d) Explain the specific functions of a management Accountant in Atom Company (5 Marks)

Question four:

a) When dealing with economic order quantity (EOQ) justify which costs are relevant and should be included in its calculations, giving examples (4 Marks)

b) A company purchases direct materials from an outside supplier at a costs of shs 70 per unit. The total annual demand for this product is 18,000units. The holding costs isshs 8 per unit and the ordering costs is shs 10 per order. A quantity discount of 6 per cent of the purchase price is available for orders in excess of 2,000 units. Should the company order in batches of 2,000 units and take advantage of quantity discounts (7 Marks)

c) Management accounting controls systems have two core elements that is budgeting and responsibility accounting. Explain how responsibility centres enable accountability for financial results to be allocated to individuals throughout the organization. (6 Marks)

d) Define the four different types of responsibility centres (8 Marks)