

LAIKIPIA



UNIVERSITY

UNIVERSITY EXAMINATIONS

2ND SEMESTER 2023/2024 ACADEMIC YEAR

**THIRD YEAR EXAMINATION FOR THE DEGREE OF
BACHELOR OF COMMERCE**

ACCT 322: MANAGEMENT ACCOUNTING II

STREAM:

TIME: 2 HRS

DAY: MONDAY [2.30-4.30 P.M]

DATE: 15/04/2024

THIS QUESTION PAPER CONSISTS OF FOUR (4) PAGES

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Instructions: Attempt question one and any other two questions

QUESTION ONE

- a) Distinguish between;
- i) Fixed and Variable costs. **(2 marks)**
 - ii) Direct and Indirect costs. **(2 marks)**
 - iii) Manufacturing and non-manufacturing costs. **(2 marks)**
 - iv) Controllable and uncontrollable costs. **(2 marks)**
- b) State five objectives of budgetary control. **(5 marks)**
- c) Explain the purpose of transfer pricing in a manufacturing firm. **(5 marks)**
- d) Highlight six assumptions of Cost volume profit analysis. **(12 marks)**

QUESTION TWO

The production manager of Tusky's Ltd is concerned about the fluctuation in efficiency in its operations and wants to determine how labor costs are related to the volume of output. The following data relates to its operations for the past 12 days.

Days	Units produced (X)	Labor costs (Y)
1	39	408
2	49	415
3	29	344
4	41	314
5	35	264
6	54	500
7	44	404
8	26	216
9	46	415
10	52	354
11	39	323
12	29	330

Required:

- i) Estimate the cost function using;
- a) The high low method
 - b) Regression analysis
- ii) Assuming that the company intends to produce 50 units and 38 units following two days, estimate the labor costs to be incurred-under of the above methods.

(20 marks)

QUESTION THREE

- a) Explain four available transfer pricing techniques.(8 marks)
 b) Mapato Ltd produces three products for sale, the operating statement shown below indicates the profits or loss for each product

	A sh. 000	B sh. 000	C sh. 000	TOTAL
Sales	6,000	12,000	6,000	24,000
Total costs	8,000	8,000	4,000	20,000
Profit (loss)	(2,000)	4,000	2,000	4,000

The total cost comprises 50% variable and 50% fixed for each product. The CEO considers that as product A shows a loss, it should be discontinued.

Required;

Using appropriate computations, show whether product A should be discontinued or retained

(12 marks)

QUESTION FOUR

Subukia traders prepares a monthly cash budget. The information given below is a projection by management for the six months ending December 2022.

1. The company's only product "Mavuno" sells at sh. 100 and has a variable cost of sh.65 made up of the following;

Materials	Sh. 50
Labour	Sh. 10
Overhead	Sh. 5

2. Fixed costs amounting to Sh. 1,500,000 are to be paid at the end of each month.
 3. Quantities to be sold on credit will be as follows;

Months	May	June	July	August	Sept	Oct	Nov	Dec
Units	250,000	300,000	350,000	400,000	450,000	500,000	550,000	650,000

4. Production quantities are budgeted as follows:

Month	May	June	July	August	Sept	Oct	Nov	Dec
Units	300,000	350,000	400,000	500,000	600,000	650,000	600,000	550,000

5. Cash sales at a discount of 5% are expected to average 25,000 units per month.
6. Customers are expected to settle their accounts by the end of the second month after sales.
7. Suppliers of materials are to be paid two months after the materials are used in production.
8. Wages are paid I the same month that they are incurred.
9. 70% of the variable overheads is paid in the month of production and the balance is paid the following month.
10. Corporation tax of sh. 4,500,000 is to be paid in the month of October 2022.
11. A new delivery van is to be bought and paid for in august. The old van will be sold in july. The cost of the new van will be sh. 2,000,000 and proceeds from the disposal of the old van will be sh.1,500,000
12. The company is expected to be sh.7,500,000 overdrawn at the bank at 30th June 2022
13. No increase or decrease in raw materials, work in progress or finished goods is expected over the budget period
14. No changes in selling price or costs are expected over the period.

Required

Cash budget for the period 1st July to 31st December 2022

(20 marks)

