KABARAK UNIVERSITY

UNIVERSITY EXAMINATIONS

2009/2010 ACADEMIC YEAR

FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

COURSE CODE: ACCT 520

COURSE TITLE: MANAGERIAL ACCOUNTING

STREAM: MBA

DAY: THURSDAY

TIME: 5:30 – 8:30P.M.

DATE: 19/08/2010

INSTRUCTIONS:

Attempt Question ONE and any other THREE Questions

PLEASE TURNOVER

Question One (a)

Cost can be classified in a number of ways. Discuss the classification of cost according to its characteristics giving examples where necessary. (10 Mks)

Question Two (b)

Outline strategies adopted by business in environmental cost management (5 Mks)

Question One (c)

The following are extract from the books of Pat Toy Manufacturers as on 31st Dec 2008

	Kshs
Stock of raw materials 1/1/2008	2,100
Stock of finished goods 1/1/2008	3,890
Stock of Work-in-Progress 1/1/2008	1,350
Direct Wages	18,000
Indirect Factory Wages	14,500
Royalties (Direct)	700
Carriage inwards	350
Purchases of raw materials	37,000
Production Machinery (at cost)	28,000
Office Machinery (at cost)	2,000
General Factory expenses	3.100
Lighting	750
Factory power	1,370
Administration salaries	4,400
Sales Representative salaries	3,000
Commission on sales	1,150
Rent	1,200
Insurance premium	420
General Administration expenses	1,340
Bank charges	230
Discount allowed	480
Carriage outwards	590
Sales	100,000

Additional information:

i. Closing Stock of:

Raw materials	Kshs 2,400
Finished Goods	Kshs 4,000
Work-in-Progress	Kshs 1,500

ii. Lighting, Rent and Insurance premium are to be apportioned in the ratio 5:1 for Factory and Administration respectively

iii. Depreciation on production and Office Machinery to be charged at 10% per annum on cost

Required:

Cost Sheet showing the Prime cost, Factory cost and other classifications of cost

(25 Mks)

Question Two (a)

Describe the role of responsibility accounting in Kenyan economy (5 Mks)

Question Two (b)

The following information is extracted from the books of a manufacturing company for the production of 10,000 units: -

	Per Unit Cost (Shs)
Materials	70
Labour	25
Variable Overheads	20
Fixed Overheads (Shs 100,000)	10
Variable Direct Expenses	5
Selling Expenses (10% fixed)	13
Administrative Expenses (Shs 50,000)	5
Distribution Expenses (20% fixed)	7
	155

Administrative expenses are fixed for all levels of production.
The Board of Directors are interested in knowing expected costs for the production of (a) 6,000 units and (b) 8,000 units and the expected profit assuming that 25% of total sales is profit.

Required:

Flexible Budget for provision of the required information (15 Mks)

Question Three (a)

Explain the essential features of life-cycle costing. (5Mks)

Question Three (b)

A market survey indicates that there is scope for introducing a new product in three different models, which will serve the different sections of the consumer market. The relevant information concerning the expected costs and selling price and sales quantity are given below:

	Model I *Shs*	*Model II* *Shs*	*Model III* *Shs*
Variable Cost per unit:			
Material	15.00	12.00	8.00
Labour	11.00	10.00	6.50
Overheads	4.00	3.00	3.00
	30.00	25.00	17.50
Selling price per unit	42.50	35.00	25.00
Expected Sales Volume per month (units)	800	2,000	4,000
Capital expenditure necessary before production can commence	80,000	300,000	400,000
Fixed Overheads per month attributable to new models including			

depreciation on capital expenditure but excluding interest	2,800	8,500	11,000

Required:

1. A statement of contribution based on marginal costing technique to show profitability of each model (indicating total cost and cost per unit).
2. An advice on the model which should be introduced, keeping into account the following factors: -
    a. Contribution to sales ratio
    b. Percentage of net profit to sales
    c. Percentage of net profit to capital investment

(15 Mks)

Question 4 (a)

Distinguish between target costing and *kaizen* costing (5 Mks)

Question 4 (b)

The Manager of the Production Department of Sirex Co. Ltd has submitted the following information to you: -

	Shs
Sales	200,000
Variable Costs	100,000
Fixed Costs	60,000

The Manager has directed you: -

a. To compute the following for prudent decision making in his Department: -
    i. P/V Ratio
    ii. Break Even Point (in Shs)
    iii. Margin of Safety (in Shs)
b. To show/compute the effect on above P/V ratio, B.E.P. and M.O.S. due to the following changes in costs: -
    i. 20% decrease in fixed costs
    ii. 10% increase in fixed costs
    iii. 10% decrease in variable costs
    iv. 10% increase in variable costs
    v. 10% decrease in fixed costs and 10% increase in variable costs
    vi. 20% increase in fixed costs and 20% decrease in variable costs

(15 Mks)

Question 5 (a)

Highlight the features of Management Accounting as a field of study which distinguish it from the other accounting fields of study (5 Mks)

Question 5 (b)

Intex Ltd Company uses material A and B in producing product Z. The following information relate to a manufacturing process of product Z during the past one week:

Standard quantity and price of raw materials:
Material A 700 units @ Shs 2 per unit
Material B 300 units @ Shs 3 per unit
Actual quantity and price of raw materials:
Material A 800 units @ Shs 3 per unit
Material B 400 units @ Shs 5 per unit

Number of employees	200 employees
Weekly hours worked per employee	40 hrs
Standard wage rate	Shs 0.50 per hour

Standard output of product Z per employee 250 units per hour

Last week, four employees were paid @ Shs 0.45 per hour, two employees were paid @ Shs 0.55 per hour and the rest were paid at the standard rates

Idle time was one hour per employee and actual output of product Z was 10,250 units for the week

Required:

Analysis of: i) Material Cost Variance
ii) Labour Cost Variance

(15 Mks)