



SOUTH EASTERN KENYA UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017

FIRST SEMESTER EXAMINATION FOR THE MASTER OF BUSINESS ADMINISTRATION

DAC 503: MANAGEMENT ACCOUNTING

DATE: 6TH DECEMBER, 2016

TIME: 9.00-12.00PM

INSTRUCTIONS

- (i) Answer Question ONE and any other Three questions
- (ii) Do not write on the question paper
- (iii) Show your working(s) clearly

QUESTION ONE (COMPULSORY)

- a) Explain the following situation in respect to cost concepts.

Charles is a full time student in SEKU. He wants to decide whether she should attend at the university a four-week mathematics bridging course, where tuition is sh.2500 or take a break and work full time at an local supermarket, where he could make as much as sh. 1500 a week.

Required:

How much attending would the mathematics bridging course cost him from a decision-making stand point? What is the opportunity cost? (4marks)

- b) Machakos Level 5 Referral hospital records show that the cost of carrying health checks in the last five accounting periods has been as follows;

Period	No of patients seen	Total cost
1.	650	17,125
2.	940	17,800
3	. 1260	18,650
4.	990	17,980
5.	1150	18360

Required:

Estimate the cost of carrying out health checks on 850 patients using Regression model.

(12 marks)

- c) Citing relevant examples, distinguish between joint products and by-products. **(4 marks)**
- d) **Majibu Solutions Ltd.** was formed ten years ago to provide business equipment solutions to local business. It has separate divisions for research, marketing, product design, technology and communication services, and now manufactures and supplies a wide range of business equipment. To date the company has evaluated its performance using monthly financial reports that analyze profitability by type of equipment. The managing director of Majibu Solutions Ltd. has recently returned from a course in which it has been suggested that the “Balanced Scorecard” could be a useful way of measuring performance. Explain the “Balanced Scorecard” and how it could be used by Majibu Solutions Ltd. to measure its performance. **(10 marks)**

(Total: 30 marks)

QUESTION TWO

Makindu Motors ltd produces tubes for motorcycles. The following data relates to the ended 31st December 2014.

Production	20,000 tubes
Sales	15,000 tubes
<u>Production costs</u>	<u>shs (000)</u>
Direct materials	24,000
Direct labour	6,000
Variable overheads	5,000
Fixed overheads	9,000
 <u>Selling and distribution</u>	
Sales commission	2,500
General expenses	1,600
Fixed overheads	2,400
The company sells each tube at	shs 2,995

Required:

Income statement for the ended 31st December 2014 on the basis of

- i) Absorption costing method **(4 marks)**
- ii) Marginal costing method **(4 marks)**
- iii) Reconcile the differences in profits if any **(2 marks)**

(Total: 10 marks)

QUESTION THREE.

Bottom-up Sports Co. Ltd produces high quality sports equipment. The company racket division manufactures three tennis rackets- the standard, the deluxe, and the pro-that are widely used in amateur play. Selected information on the rackets is given below:

	Standard	Deluxe	Pro
	Sh.	Sh.	Sh.
Selling price per racket	3,240	4800	7200
Variable expenses per racket:			
Production	1,760	2,160	2,520
Selling (5% of selling price)	160	240	360

All sales are made through the company's own retail outlets. The cost records show that the following fixed costs are assignable to the rackets division.

	Per month
	Sh
Fixed production costs	9,600,000
Advertising expense	8,000,000
Administrative salaries	<u>4,000,000</u>
Total	21,600,000

Sales in units over the past two months have been:

	Standard	Deluxe	pro
April	2000	1000	5,000
May	8,000	1,000	3,000

- a) Upon seeing the income statements for April and May, the managing Director stated, "I can't believe this! We sold 50% more rackets in May than in April, yet profits went down. It's obvious that costs are out of control in that division."

REQUIRED

- i) Determine the drop in profit and explain why it occurred **(8 Marks)**
- ii) Compute the racket division's breakeven point in shillings for the month of April **(2 marks)**
- (Total: 10 marks)**

QUESTION FOUR

AGA is an industrial lubricant which is prepared by subjecting certain crude chemicals to two successive processes. The output of process I is transferred to process 2 where it is blended with other chemicals. The process costs for the month of October 2004 were as follows:

Additional information

- 1) General overhead costs were absorbed into process costs on the basis of labour cost. General overhead for the month of October 2004 amounted to Sh. 357,000.
- 2) The normal output of process I was 80% of input, while that of process II was 90% of input.
- 3) Waste material from process I was sold for Sh.2 per kg. whole that from process II was sold for Sh.3 per kg.
- 4) The output for the month of October 2004 was as follows:
Process I: 2,300,000kg
- 5) Process II: 4,000,000kg
- 6) There was no stock or work in progress of either of the products at the beginning or end of the period.
- 7) It was assumed that all available waste material had been sold at the prices indicated above.

Required:

Demonstrate how the data above would be recorded in:

- a) Process accounts for both processes for the month of October 2004.
- b) Finished stock account.
- c) Normal loss account.
- d) Abnormal loss and gain

(Total: 10 marks)

QUESTION FIVE

Best lady ltd is a manufacturer of two beauty products called Espresso and Impresso. The company uses two gels in form of raw materials namely A and B in the manufacture of the two products. The following information is given for the month of December 2013.

Sales

Product	Quantity in bottles	Price in sh.
Espresso	10000	400
Impresso	8000	300

Materials used

	Material A	Material B
Quantity used in Litres		
Ex	5	3
Imp	4	4
Material cost per unit	50	80

The stock of the products as at 1st Dec 2013 is expected to be:

Espresso: 200 units and Impresso: 100 units while the closing stock is expected to be Espresso: 1200 units and Impresso: 600 units.

Required:

- i) Sales budget (2 marks)
- ii) Production budget (3 marks)
- iii) Material usage budget (2 marks)
- iv) Material purchases budget. (3 marks)

(Total: 10 marks)