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**University Examinations 2015/2016**

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF

BACHELOR OF COMMERCE

**BFC 3425: MANAGEMENT ACCOUNTING**

**DATE: AUGUST 2016 TIME: 3 HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***three***questions.

**QUESTION ONE (30 MARKS)**

1. Explain the differences between Management Accounting and Financial Accounting. (4 marks)
2. Management accounting is concerned with the provision and use of accounting information to managers within organizations, to provide them with the basis to make informed business decisions that will allow them to be better equipped in their management and control functions.

Required:

Explain how Management Accounting is applied in the following functions:

1. Planning (2 marks)
2. Controlling (2 marks)
3. Decision making (2 marks)

Hint: The learner must be able to identify the appropriate management accounting tools/techniques to be applied.

1. KEMRI, a medical research institute is planning to undertake a research to develop a new drug. The expenditure so far is Shs.240,000. Further cost to complete the project is estimated to be twice as much as what is already spent and the drug is expected to generate cash flows with present values of Sh.500,000.

**Required:**

Using appropriate computations, advise the management whether they should continue with the plan or not. (6 marks)

1. The following records have been obtained from the books of King Pin Ltd, a firm dealing with computer repairs and maintenance:

|  |  |  |
| --- | --- | --- |
| **Week** | **Number of computers purchased** | **Total cost**  |
|  |  | Sh. |
| 1 | 310 | 23,200 |
| 2 | 200 | 19,500 |
| 3 | 600 | 23,600 |
| 4 | 480 | 20,220 |
| 5 | 460 | 23,600 |
| 6 | 440 | 18,480 |
| 7 | 420 | 16,200 |
| 8 | 330 | 20,200 |

**Required:**

1. Draw a Scatter graph and deduce the line of best fit. (5 marks)
2. Using the Range method, determine the cost of purchasing 480 computers for week 9. (4 marks)
3. Using the Least Squares method, estimate the output to be attained at the cost of Sh.28,000 at week 10. (5 marks)

**QUESTION TWO (20 MARKS)**

1. “Whereas Kenyan are disparate for viable investment opportunities, Corporate Governance has proved to be one of most serious challenges in the country. Therefore, shareholders must monitor performance of the directors”.

**Required:**

List and explain any three qualitative methods of performance evaluation. (6 marks)

1. The Board of Directors of Mecotech Limited is considering opening a nursery school. Members of the Board agreed that the school which would be open to all children should operate within Kshs.5,000/= of the break-even point. The school will be open for nine moths each year with two classes, one in the morning and one in the afternoon. The Treasurer prepares an analysis of the expected costs of operating the school based on conversation with members of other/investors who run similar programmes.

Salaries – Teacher and Assistant Kshs.340,000/= for nine months

Utilities Kshs.12.000/= for nine months

General operating costs Kshs.8,000/= for nine months

Supplies, paper, paint Kshs.30/= per child

Snacks, cookies and juice Kshs.50/= per child per month

The best estimate of enrolment is 20 children in each of the two classes, which is all that the teacher and Assistant can handle and still achieve the quality that the board thinks is essential.

**Required:**

1. Determine the monthly fee per child that would have to be charged for the school to break-even with its maximum enrolment (7 marks)
2. If the monthly fee is Kshs.1,000/=, what is the break-even point in enrolment? (3 marks)
3. Discuss four assumptions of the technique you have used above. (4 marks)

**QUESTION THREE (20 MARKS)**

1. Citing a firm with which you are familiar, discuss the relevance of “Responsibility Accounting” , its problems and possible solutions thereof. (9 marks)
2. Explain three methods which may be applied a firm that practices Transfer Pricing as used in Management Accounting. (3 marks)
3. ABC Ltd which deals in product A and B wishes to prepare an operating budget for the forth coming period. The following details are available:

|  |  |
| --- | --- |
|  | Product |
| Materials: | A | B |
|  x (kg) | 40 | 60 |
|  y (litres) | 20 | 80 |
| Labour hours required: |  |  |
|  Skilled (hours) | 80 | 40 |
|  Unskilled (hours) | 40 | 100 |
| Sales level (units) | 40,000 | 30,000 |
| Opening stock (units) | 2,000 | 4,000 |

The following additional information is relevant:

1. Material X costs Sh.100 per kg and Y costs 70 per litre
2. Skilled and unskilled workers are paid sh.120 and Sh.80 per hour respectively.
3. Opening stocks were 6000kg for material X and 20000 for material Y.
4. Closing stock of both materials and finished goods will be enough to meet 10% of demand.

**Required:**

1. Production Budget (3 marks)
2. Material Usage Budget (3 marks)
3. Labour hours and shillings budget (2 marks)

**QUESTION FOUR (20 MARKS)**

1. Your organization has undergone several changes in the past five years and is now in the process of incorporating the standard costing systems.

As the team leader of the system design task force, describe four key issues that would need to be addressed in designing the standard costing system (8 marks)

1. The standard costing of producing a unit of DS945 is given below:

Direct Materials 20kgs @ shs 30 per kg

Direct 50 hours @ shs 40 per hour

The actual cost for the manufacture for the product was as follows:

 Direct Materials 230kg @ Shs 32 per kg

 Direct labour 45 hours @ shs 42 per hour.

**Required:**

1. Material price variance (4 marks)
2. Labour Cost Variance (4 marks)
3. State the limitations of this technique (4 marks)

**QUESTION FIVE (20 MARKS)**

1. Citing relevant examples, briefly explain the following terms:
2. By product (2 marks)
3. Joint product (2 marks)
4. A process incurring manufacturing costs of sh.800,000 produces three main products namely: A, B and C and also a byproduct D. All the main products and the byproduct require further processing before being sold.

|  |  |
| --- | --- |
| Product | Litres |
| A | 6,000 |
| B | 10,000 |
| C | 20,000 |
| By-product D | 5,000 |
|  |  |

**Additional information:**

1. The post separation process costs and selling price for each of the product are as follows:

|  |  |  |
| --- | --- | --- |
| Product | Cost per litre | Selling price per litre |
|  | Shs. | Shs. |
| A | 150 | 250 |
| B | 40 | 100 |
| C | 80 | 160 |
| By-product D | 20 | 40 |

1. The expected quantities of output sold in a period after final processing are as follows:

|  |  |
| --- | --- |
| Product | litres |
| A | 5,500 |
| B | 9,600 |
| C | 18,500 |
| By-product D | 5,000 |

1. The company has a policy of deducting net sales value of by-product from production cost.

**Required:**

1. The apportioned joint cost to produce A, B and C using the Net Realizable Valuation method. (8 marks)
2. The total cost and cost per litre of product A, B and C. (4 marks)
3. The value of closing stocks of products A, B and C. (4 marks)