**MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**P.O. Box 972-60200 – Meru-Kenya**

**Tel: 020-2069349, 061-2309217. 064-30320 Cell phone: +254 712524293, +254 789151411**

**Fax: 064-30321**

**Website:** [**www.must.ac.ke**](http://www.must.ac.ke) **Email:** **info@must.ac.ke**

**University Examinations 2015/2016**

SECOND YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE

OF

MASTER OF BUSINESS ADMNISTRATION

**BFA 5175: MANAGEMENT ACCOUNTING**

**DATE: APRIL 2016 TIME: 3 HOURS**

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

**QUESTION ONE (30 MARKS)**

1. The chart below was prepared by Miss Baite the cost accountant at Baite Stock merchants Limited. According to her, the chart provides details of stock costs and levels.
2. As the Director in charge of material cost; briefly explain to your Board of Directors the stock status according to your interpretation of the chart. (4 marks)
3. How are overheads charged to service departments treated? (2 marks)
4. Name six different rates used for absorption of overheads (3 marks)
5. Outline the various ways of dealing with uncertainty in cost volume profit analysis (5 marks)
6. You have been given the following production information Garakoromone enterprises and are asked to provide the plant manager with information for a meeting with the vice-president of operations.

Standard Cost Card

|  |  |
| --- | --- |
|  | Kes |
| Direct materials (DM) (6 KG @ KES 3) | 18.00 |
| Direct labour (DL) (0.8 HR @ Kes 5) | 4.00 |
| Variable overhead (VOH) (0.8 HR @ Kes 3) | 2.40 |
| Fixed overhead (FOH) (0.8 HR @ Kes 7) | 5.60 |
|  | 30.00 |

Following is a production report for the last period of operations:

|  |  |  |
| --- | --- | --- |
|  |  | Variances |
| Costs | Total Standard Cost (Kes) | Price/Rate (Kes) | Suspending/Budget (Kes) | Quantity/Efficiency (Kes) | Volume (Kes) |
| DM | 405,000 | 6,900F |  | 9,000U |  |
| DL | 90,000 | 4,850U |  | 7,000U |  |
| VOH | 54,000 |  | 1,300F |  |  |
| FOH | 126,000 |  | 500F |  | 14,000U |

Note:

F = Favourable; U = Unfavourable

Required:

1. Calculate the number of units produced last period. (4 marks)
2. Calculate the quantities of raw material purchased and used during the period (4 marks)
3. Calculate the actual cost per kilogram of raw material. (4 marks)
4. Calculate the number of actual direct labour-hours worked during the period. (4 marks)

**QUESTION TWO (15 MARKS)**

Information relating to two processes Fagilia and Gonga was as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| Process  | Normal loass as % of input  | Input (litres) | Output (litres)  |
| Fagilia  | 8 | 65,000 | 58,900 |
| Gonga  | 5 | 37,500 | 35,700 |

1. For each process, was here an abnormal loss or an abnormal gain? (4 marks)
2. Discuss the purpose of management accounting in a manufacturing firm (8 marks)
3. Distinguish between normal loss and abnormal loss (3 marks)

**QUESTION THREE (15 MARKS)**

The following budgeted information relates to king Lee manufacturing company for next period:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Units  |  | Kes |
| Production  | 14,000 | Fixed production costs  | 63,000 |
| Sales  | 12,000 | Fixed selling costs  | 12,000 |

1. Using absorption costing dthe profit for next period has been calculated as 36,000. What would be the profit for next period using marginal costing (4 marks)
2. A company has a budgeted material cost of Kes 125,000 for the production of 25,000 units per month. Each unit is budgeted to use 2 kg of material. The standard cost of material is Kes 2.50 per kg. Actual materials in the month cost Kes 136,000 for 27,000 units and 53,000 kg were purchased and used. What was the adverse material price variance? (4 marks)
3. Explain the term work in progress (3 marks)
4. Briefly explain the following terms (4 marks)
5. Contract price
6. Retention money
7. Cost behavior
8. Cost centre

**QUESTION FOUR (15 MARKS)**

An organization has the following total costs at two activity levels:

|  |  |  |
| --- | --- | --- |
| Activity level (units) | 16,000 | 22,000 |
| Total costs (Kes) | 135,000 | 170,000 |

Variable costs per unit is constant within this range of activity but there is a step up of Kes 5,000 in the total fixed costs when the activity exceeds 17,500 units.

1. Determine the total cost at an activity level of 20,000 units? (3 marks)
2. Explain joint products giving 4 relevant examples (6 marks)
3. Describe the methods of apportioning costs of joint products (6 marks)

**QUESTION FIVE (15 MARKS)**

A company uses an overhead absorption rate of Kes 3.50 per machine hour, based on 32,000 budgeted machine hours for the period. During the same period the actual total overhead expenditure amounted to Kes 108,875 and 30,000 machine hours were recorded on actual production.

1. By how much was the total overhead under or over absorbed for the period? (3 marks)
2. Discuss the key considerations when designing a costing system for a firm (8 marks)
3. Distinguish between joint products and by-products. (4 marks)