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**University Examinations 2014/2015**

FOUTH YEAR, FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

**HBC 2217: ISSUES IN MANAGEMENT ACCOUNTING**

**DATE: DECEMBER 2014 TIME: 2 HOURS**

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

**QUESTION ONE**

1. Nkirote is the controller at Makuu, a car dealership. She recently hired Karambu as a book keeper. Karambu wanted to attend a class on excel spreadsheet, so Nkirote temporarily took over Karambu’s duties, including overseeing a fund for topping off a cars fuel tank before a test drive. Nkirote found a shjortage in this fund and confronted Karambu when he returned to work. He admitted that he occasionally uses this fund to pay for his own petrol. Nkirote estimated that the amount involved is around ksh. 30,000.

Required:

1. What should Nkirote do (4 marks)
2. Explain various threats to ethical code (6 marks)
3. A company producing hand-crafted cut glass calculates its costs as follows for each glass produced.

£

Direct material 2.50

Direct labour -3 hours at £7.50 per hour 22.50

25.00

Variable overhead -3 hours at £2 per hour 6.00

Total variable cost 31.00

Fixed overheads – 3 hours at t3 per hour 9.00

Total cost per unit 40.00

The company’s pricing strategy is to charge a price based upon a product’s full cost plus 25%. Required:

1. Determine the price of ten glasses (5 marks)
2. Explain the limitations of the above pricing strategy (5 marks)
3. Hart Tower ltd is considering replacing its unkempt staircases with modern intelligent escalators (lifts). The escalators are smart, intelligent and comfortable and more efficient than the staircases, however they have a shorter life. The company uses the straight line method of depreciation. Revenue from the escalators (2.2M per year) is expected to be affected by the replacement decision. Summary data on existing staircases and the replacement escalators are shown below in sh.

**Escalator Existing stairs New**

Original cost 2,000,000 1,200,000

Useful life (years) 10 4

Current age (years) 6 0

Accumulated depreciation 1,200,000 Nil

Current disposal price 80,000 Not acquired

Terminal disposal price (2 years from now) 0 0

Annual operating costs 1,600,000 920,000

Advice the management on whether to replace the staircases or not (10 marks)

**QUESTION TWO**

1. You are currently offered an engagement as a management accountant for Bidii ltd, a company that makes compact discs and LP records. The following data is provided about two products.

Compact discs Records

Monthly production 15,000 5,000

Direct material costs

Pressing Dept Ksh. 5.00 Ksh. 6.00

Cutting Dept Ksh. 5.00 Ksh. 7.00

Packing Dept Ksh. 3.00 Ksh. 13.00 Ksh. 2.00 Ksh. 15.00

Direct labour costs Ksh. 5.00 Ksh. 7.00

Ma clime hours

Pressing Dept 0.6 0.5

Cutting Dept 0.6 0.5

Packing Dept 0.5 0.3

In addition, the following overheads are incurred:

Ksh. Basis of Apportionment

Production department overheads

Pressing Dept 25,000

Cutting Dept 30,000

Packing Dept 16,000

Service Department overheads

Purchasing costs 7,000 direct material

Production control costs 5,000 direct material

set up costs 12,000 direct material

Maintenance 3,000 machine hours

Quality control 4,000 machine hours

The company wishes to introduce a pricing system which is 20% mark-up on marginal costs.

Required:

Calculate the price it should charge for compact discs and records (10 marks)

1. Write explanatory notes on the following accounting system:
2. Back flash accounting (5 marks)
3. Throughput accounting system (5 marks)

**QUESTION THREE**

1. Smart Ltd has two factories. East and West, both of which produce product EW 90. West occupies a company-owned freehold factory; the East factory is leased. The lease for the   
   East factory is now due for renewal and if the proposed terms are accepted; the rental will increase by Ksh 15,000 per annum. The company’s head office costs are allocated to factories on the basis of sales value. The following sales and costs apply to the budgeted results for the year before the rental increase.

West East Head office Total

Sales (units) 30,000 20,000 - 50,000

Ksh Ksh Ksh Ksh

600.000 400,000 - 1,000,000

Variable cost

Materials 120.000 80,000 - 200,000

Direct wages 180.000 110,000 - 290,000

Variable manufacturing

overheads 60.000 30,000 - 90,000

360.000 220,000 - 580,000

Fixed Costs

Rent - 40,000 5.000 45,000

Depreciation 60.000 20,000 10.000 90,000

Other fixed overheads 70,000 60.000 65.000 195,000

Total costs 490.000 340,000 80.000 910,000

It the lease of the East factory is not renewed, the production facilities at the West factory can be expanded to cover the loss of production from East. To produce the additional output, new plant and equipment will be required which will cost Ksh. 200.000. The additional plant would be depreciated over a five-year period on the straight-line basis with no residual value anticipated. The purchase would be financed by a loan, bearing interest at 10% per annum. Additional selling and distribution costs of Ksh 0.20 per unit sold will be incurred on sales made to customers at present in the territory covered by East. The expansion of the West would cause its fixed costs to rise by 40%. Head office costs would not be affected. Variable manufacturing costs would be based on the present unit costs incurred by West. Receipts from the sale of plant and equipment would cover closure costs of the East factory.

Required:

1. Give calculations to show which alternative would be more profitable (12 marks)
2. Show the return on the additional investment if all manufacturing is carried out at the West factory

(8 marks)

**QUESTION FOUR**

1. In this rapidly changing world, managerial accounting must continue to innovate in order to provide managers with the information they need. However, the managers may focus too enthusiastically on the latest innovation, to the detriment of other areas of the business.

**Required:**

Discuss how the use of a balanced scorecard correct this limited perspective (12 marks)

1. A choice has to be made between three manually excusive projects requiring an initial cash outlay of sh 50,000 each and are expected to generate net cash flows shown below. The present value factor is 15%.

|  |  |  |  |
| --- | --- | --- | --- |
| Year | Project A | Project B | Project C |
| 1 | 25,000 | 10,000 | 10,000 |
| 2 | 15,000 | 12,000 | 30,000 |
| 3 | 10,000 | 18,000 | 45,000 |
| 4 | Nil | 25,000 | 65,000 |
| 5 | 12,000 | 8,000 | 45,000 |
| 6 | 6,000 | 4,000 | 25,000 |

Compute the NPV and profitability index of each project (8 marks)