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**University Examinations 2016/2017**

FIRST YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF MASTER IN BUSINESS ADMINISTRATION

**BFA 5175: MANAGEMENT ACCOUNTING**

**DATE: DECEMBER 2016 TIME: 3HOURS**

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

**QUESTION ONE (40 MARKS)**

1. In an effort to reduce cost, the B.O.D. have decided to do away with management accounting function. They have fronted an argument to the effect that management accounting function is a duplication of the financial accounting function. The C.E.O. has a different opinion and has asked for your expert opinion in order to make a convincing report to be tabled at the next board meeting.

Required: Prepare precise but a convincing report detailing the role of management accounting in an organization and its importance to the management (15 marks)

1. To enhance performance efficiency and optimize utilization to organization resources, budgetary control process should be carried out periodically. Explain this statement.

(10 marks)

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Foundation of Innovations Page

1. Njuguh Ltd are planning on the next production period. The cost of the last 10 production periods are as follows:

Quality Cost sh. ‘000’

100 600

120 650

126 680

130 700

190 750

200 780

230 850

250 890

270 900

280 1100

**Required:**

1. Computer the cost function using: the Least Square Method (8 marks)
2. Estimate the cost if in the eleventh production period it is expected that there will be 310 units (2marks)
3. What are the limitations of cost estimation? (5 marks)

**Question Two (20 Marks)**

Molu traders has been manufacturing and selling three products in Garrisa town. The market demads for the products on average has been as follows:

**Product Annual demand**

**Units**

Beta 20,000

Ched 25,000

Dilo 48,000

The manufacture of the product requires time on a machine as follows:

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**Product Time required**

Beta 30 minutes

Ched 45 minutes

Dilo 20 minutes

The following are available for each products:

Beta Ched Dilo

Sh Sh Sh

Direct materials 15 12 14

Direct Labour 25 20 23

Variable overheads 5 3 6

Fixed overheads 7 5 8

Profit per unit 8 8 8

Selling price 60 48 59

Due to the prevailing drought and power rationing, the company can only manage to get a maximum of 30,000 hours on the machine per year.

**Required:**

1. Rank the products in order of priority if there is a limitation of the machine hours.

(10marks)

1. Advise the management on the most profitable product mix (5 marks)
2. In decision making, some information is relevant while other information is irrelevant. Explain what kind of information is relevant (5 marks)

**Question Three (20 Marks)**

1. Explain weaknesses of break-even theory (6 marks)
2. Jimco Ltd manufactures and sells a single product. The following information regarding the company’s operations for the year ended 30 September 2014 was presented to you.

Profit and loss account for the year ended 30 September 2014

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**Sh ‘000 Sh ‘000**

Sales 30,000

Less: **Production Costs**

Direct material 6,500

Direct labour 5,400

Production overhead viable 7,000

Prime costs 18,900

11,100

Other expense:

Selling –Variable cost 2,600

Fixed cost 1,997

Administration 2,100 6,697

Net profit 4,403

The following changes are expected to occur during the year ending 30 September 2015:

1. Selling price will be adjusted downward by 3% in order to attract more customers.
2. Material prices will rise by 2% due to inflation
3. There will be a reduction in labour cost of 4%
4. Production overheads will increase by 3%
5. Increase in the efficiency of sales persons will reduce direct selling costs by 5%

All other factors are expected to remain constant.

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**Required:**

1. Break-even point in sales value (4 marks)
2. The margin of safety in sales value (2 marks)
3. The sales value at which profit of sh 4.5 million will be achieved (2 marks)
4. A summary operating statement that shows the net profit of sh. 4.5 million in (c) above (6 marks)

**Question Four**

Furaha Ltd. Is a manufacturing company which produces and sells a single products” Rhaul”.

Cost Shs.

Variable manufacturing 45

Fixed manufacturing 35

Variable selling and administration 8

Fixed selling and administration 30

118

Fixed manufacturing costs per unit are based on a predetermined rate established at a normal activity level of 18,000 production units per period. Fixed selling and administration costs are absorbed into the cost of sales at 20% of the selling price. Under/over recovery of overheads are transferred to the profit and loss account at the end of each period. The following information has been provided for two consecutive periods:

Period 1 period 2

Sales:(units) 17,000 18,000

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Foundation of Innovations Page 5

Value sh 2,550,000 sh. 2,700,000

Variable manufacturing costs sh 720,000 sh 828,000

Fixed manufacturing costs sh 640,000 sh 630,000

Fixed selling and administration costs sh 540,000 sh540,000

Production (units) 16,000 18,400

**Required:**

1. Income statements for period 1 under the full costing method (5 marks)
2. Income statements for period 1 under the direct costing method (5 marks)
3. Reconciliation for each period of the profit/loss obtained under the two methods in (a) and (b) above (4 marks)
4. Outline three arguments in favour of
5. The full costing method (3 marks)
6. The direct costing method (3 marks)

**Question Five**

Lamu Ltd produces a popular brand of biscuits which sells under the brand name “Tamu”. The biscuits are sold in packets of 100 grammes at sh 20 each. To reduce the distribution costs, the firm is only selling its products through the supermarkets at Sh 12 per packet. The budgeted standards for the year ended 31 December 2001 are given below:

Annual fixed manufacturing costs sh 560,000

Direct materials per packet sh 2.5

Direct labour cost per hour sh 200.00

Variable factory overheads per hour sh 275.00

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Foundation of Innovations Page 6

Selling costs per unit (variable) sh 9.80

Output: Number of packets per hour 100

Number of working hours per week 40

At the end of the year, an analysis of the results revealed the following:

1. The actual selling price was Sh 12.75 per unit.
2. Direct material costs per packet reduced by 5%
3. The actual production rate was 98 packets per hour , although there was no idle time.
4. All units produced were sold
5. Actual fixed costs were sh 480,000
6. There was no change in the selling and distribution cost per unit
7. Actual variable overheads amounted to sh 550,000

**Required:**

1. The original (static) budgeted income statement for the year (6marks)
2. Actual income statement to the year (6 marks)
3. The flexed budgeted income statement for the year (8 marks)

**Question Six**

Africa Apple ltd are manufacturers of high end telecommunication devices. The current operating level is 400,000 tablets annually but full capacity is 550,000. The tablets normally sell for $1,500 per tablet . Manufacturing cost data of 400,000 tablets is as shown below:

Manufacturing costs $’000’ $’000’

Variable costs 3000,000

Fixed costs 187,500 487,500

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Selling and administration costs

Variable (freight and commissions) costs 30,000

Fixed costs 60,000 90,000

577,500

A vendor offers to buy 100,000 tablets for export at $1,125 per tablet. The buyer will pay for freight and no commissions will be paid. The acceptance of this offer will not affect the present sales. The managing director is reluctant to accept that offer because he believes that the offer price of $ 1,125 is well below the manufacturing cost per unit.

**Required:**

1. Should the offer be accepted? (7marks)
2. What factors should be considered before accepting the order? (3marks)
3. Discuss accounting as an information system and also the various users it serves

(10marks)

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Foundation of Innovations Page 8