



**MASENO UNIVERSITY**  
**UNIVERSITY EXAMINATIONS 2016/2017**

**THIRD YEAR FIRST SEMESTER EXAMINATION FOR DEGREE  
OF BACHELOR OF BUSINESS ADMINISTRATION WITH  
INFORMATION TECHNOLOGY**

**CITY CAMPUS - EVENING**

**ABA 404: MANAGEMENT ACCOUNTING**

Date: 29<sup>th</sup> November, 2016

Time: 5.30 - 8.30pm

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**INSTRUCTIONS:**

- Answer Questions ONE (Compulsory) and any other THREE.

MASENO UNIVERSITY

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**QUESTION ONE (COMPULSORY)**

- a) Explain the basic objectives of Managerial Accounting in an organization

### QUESTION ONE (COMPULSORY)

- a) Explain the basic objectives of Managerial Accounting in an organization  
( 5 marks)
- b) "Today most organizations are drifting towards the use of more variable costs as opposed to fixed costs". Explain the foregoing in the light of the changing economic times  
(5 marks)
- c) One of Varic Company's products goes through a glazing process. The company has observed glazing costs as follows over last six quarters

QUARTER	UNITS PRODUCED	TOTAL GLAZING COST (KSH)
1	8	27
2	5	20
3	10	31
4	4	19
5	6	24
6	9	29

For purposes of planning, the company's management must know the amount of variable glazing costs per unit and the total fixed glazing cost per quarter

#### REQUIRED:

- i) — Using the regression method, develop the firm's total costs function  
(10 marks)
- ii) Explain the salient weaknesses of the regression method used above  
(5 marks)

### QUESTION TWO

Consider the following statement by Kwese Company, a small manufacturer of microwave ovens:

KWESE COMPANY INCOME STATEMENT FOR THE MONTH OF JUNE 2011		
	Total (Ksh)	Per Unit (Ksh)
Sales (400 ovens)	100,000	250
LESS: Variable Expenses	60,000	150
Contribution Margin	40,000	100
LESS: Fixed expenses	35,000	
NET INCOME	5,000	

a) Assume that Kwese company is currently selling 400 ovens per month. The sales manager feels that at Ksh. 10,000 increase in the monthly advertising budget will increase monthly sales by Ksh. 30,000

**Required:** Determine whether the advertising budget should be increased or not (7 marks)

b) Assume that Kwese Company is currently selling 400 ovens per month. To increase sales, management would like to cut the selling price by Ksh. 20 per oven and increase advertising budget by Ksh. 15,000 per month. Management feels that if these two steps are taken, unit sales will increase by 50 percent

**Required:** Prepare computations to determine whether these two steps are profitable (8 marks)

### QUESTION THREE

a) Discuss the human relations dimension of budgeting (5 marks)

b) A sales budget is given below for one of the products manufactured by Vincent Limited:

Month	Sales Budget in Units
July	20,000
August	35,000
September	60,000
October	40,000
November	30,000
December	25,000

The inventory of finished goods at the end of each month must equal 20 percent of the next month's sales. On June 30, the finished goods inventory totaled 4,000 units. Each unit of product requires three grams of a special liquid extract known as SV-6. Sometimes this extract is in short supply; for this reason, the company has a policy of maintaining an inventory at the end of each month equal to 30 percent of the next month's production needs. This requirement was met on July 1 of the current year.

#### REQUIRED:

Prepare a budget showing the quantity of SV-6 to be purchased each Month for the three months starting July 1 (10 marks)

## QUESTION FOUR

Ogiek Company wants to develop an estimate of its supplies costs. Aristarcus Monyoncho, the proprietor, has collected what he believes to be the relevant data for the past 12 months. It is Mr. Monyoncho's professional opinion that the supplies cost should be closely related to the volume of the product produced; thus, he has provided you with the following information:

Month	Units Produced	Cost of Supplies Kshs
January	120	4260
February	96	3468
March	84	3564
April	60	2892
May	72	3036
June	96	3816
July	84	3396
August	96	3384
September	120	3864
October	84	3540
November	72	3072
December	60	2904

### Required:

Formulate a monthly cost function using;

- High-low method (7 marks)
- Discuss the differences between management accounting and financial accounting (8 marks)

## QUESTION FIVE

- Denton Company was organized on January 2, 2004. During its first two years of operations, the company reported net income as follows:

	2014 Ksh	2015 Ksh
Sales (@Ksh. 50)	<u>1,000,000</u>	<u>1,500,000</u>
LESS: Cost of Goods sold:		
Opening Inventory	0	170,000
ADD: Cost of goods produced (@ ksh. 34)	<u>850,000</u>	<u>85,000</u>
Goods available for Sale	850,000	1,020,000
LESS: Ending inventory (@Ksh. 34)	<u>170,000</u>	<u>0</u>
Cost of goods sold	<u><b>680,000</b></u>	<u><b>1,020,000</b></u>
 Gross Margin	 320,000	 480,000
 LESS: Selling and Administrative Expenses	 <u>310,000</u>	 <u>340,000</u>
<b>Net Income</b>	<u><b>10,000</b></u>	<u><b>140,000</b></u>

Ksh. 3 per unit variable; Ksh. 250,000 fixed each year. The company's Ksh 34 unit cost is computed as follows:

	Kshs
Direct Materials	8
Direct Labour	10
Variable manufacturing overhead	2
Fixed manufacturing overhead (Ksh 350,000/25 units)	<u>14</u>
Total Cost per unit	<u><u>34</u></u>

Production and cost data for the two years are given below;

	2014	2015
Units produced	25,000	25,000
Units Sold	20,000	30,000

- a) Prepare an income statement for the year 2015 in the contribution format using Direct Costing (9 marks)
- b) Reconcile the absorption costing and direct costing net income figures for the year 2015 (6 marks)