MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017

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

MAIN CAMPUS

ABA 404: MANAGEMENT ACCOUNTING I

Date: 6th December, 2016 Time: 12.00 - 3.00pm

INSTRUCTIONS:

- Answer Question ONE and any other THREE

Answer Question one and any other two questions

QUESTION ONE

a. Gordon Company sells two items, corn and broccoli. The company is considering dropping corn. It is expected that sales of broccoli will increase by 40% as a result. Dropping corn will allow the company to cancel its monthly rental of its corn shucker costing Shs 100 a month. The other equipment will be used for additional production of broccoli. One employee earning Shs 200 can be terminated if corn production is dropped. Gordon's other allocated costs are unavoidable. The company rents all of its equipment. A condensed, budgeted monthly income statement with both products is below:

Items	Total Shs	Corn Shs	Broccoli Shs
Sales	20,000	8,000	12,000
Food materials	4,500	2,000	2,500
Direct Labour	3,200	1,200	2,000
Equipment Rental	2,900	2,600	300
Other Allocated overheads	3,100	2,100	1,000
Operating Income	6,300	100	6,200

In good form, prepare an incremental analysis to determine the financial effect of dropping corn production. (10 marks)

b. Explain **five** bases of classifying Cost. (10 marks)

c. Discuss five functions of a budget as a tool of management. (10 marks)

QUESTION TWO

From the following information prepare the manufacturing, trading and profit and loss accounts for the year ending 31 December 2015 and the balance sheet as at 31 December 2015 for the firm of J. Jones.

	Shs	**Shs**
Purchase of raw materials	258,000	
Fuel and light	21,000	
Administration salaries	17,000	
Factory wages	59,000	
Carriage outwards	4,000	
Rent and rates	21,000	
Sales		482,000
Returns inward	7,000	

General office expenses	9,000	
Repairs to plant and machinery	9,000	
Stock at 1 January 2015		
Raw materials	21,000	
Work in progress	14,000	
Finished goods	23,000	
Sundry creditors		37,000
Capital account		457,000
Freehold premises	410,000	
Plant and machinery	80,000	
Debtors	20,000	
Provision for depreciation on plant and Machinery at 1 January 2015		8,000
Cash in hand	11,000	
	984,000	984,000

Make provision for the following:

(a) Stock in hand at 31 December 2015

Raw materials	Shs25, 000
Work in progress	11,000
Finished goods	26,000

(b) Depreciation of 10% on plant and machinery – straight line method

(c) 80% of fuel and light and 75% of rent and rates to be charged to manufacturing

(d) Doubtful debts provision – 5% of sundry debtors

(e) Shs4,000 outstanding for fuel and light

(f) Rent and rates paid in advance - Shs5,000

(g) Market value of finished goods - Shs382,000

QUESTION THREE

a. Clinton Company makes and sells 16,000 ties each year. Fixed overhead costs are allocated to ties based on its annual production of 16,000 ties. The unit cost of making one tie at this activity level follows:

	Shs
Direct materials	90
Variable manufacturing overheads	30
Direct Labour	50
Fixed manufacturing overheads	40

Capacity is 20,000 ties. Forty percent of the fixed overhead costs is avoidable. An overseas company recently offered to buy 2,500 ties at Shs 200 per tie even though Clinton's regular customers pay Shs 250 each. Should Clinton accept the special offer?

b. Explain the role of management accounting in an organization (10 marks)

QUESTION FOUR

(a) Distinguish between decisions taken under Uncertainty and Risk (5 marks)

(b) A company is interested in setting up a Tomato processing plant in Kaloka Beach. The available economic information on the states of nature reveals that the economy may demonstrate aspects of strong, stable or weak economy. The company has the option of putting up a big, medium or small factory. The profitability matrix is as provided below;

Investment Choice	**Profits earned (in shs '000,000') per each state of nature**		
	Strong Economy	**Stable Economy**	**Weak Economy**
Probabilities	**0.3**	**0.4**	**0.3**
Large factory	400,000	100,000	(240,000)
Medium plant	180,000	240,000	(60,000)
Small plant	80,000	60,000	40,000

Required:

Choice of alternative investment under

i) Maximax criterion (3 marks)
ii) Maximin criterion (3marks)
iii) Minimax criterion (3 marks)
iv) Expected value for perfect information (EVPI) (6 marks)

QUESTION FIVE

Brislin Company makes and sells two products, Olives and Popeyes. The income statement for the prior year, 2013, was as follows:

	Olives	Popeyes
	Shs (000)	Shs (000)
Sales	16,000	24,000
Variable Cost of goods sold	6,000	10,000
Manufacturing Contribution cost	10,000	14,000
Fixed Production cost	5,000	7,000
Variable selling and administration	2,000	5,000
Fixed selling and administration	1,000	3,000
Net Income	1,000	1,000

Brislin's fixed costs are unavoidable and are allocated to products on the basis of sales revenue. If Popeyes are dropped, sales of Olives are expected to increase by 40 percent next year.

a. Using the incremental approach, determine if Popeyes should be dropped. (6 marks)

b. Explain Five methods of Cost estimation (5 marks)

c. Quality Bikes, Inc., currently produces racing bikes. Management is interested in outsourcing production of these bikes to a reputable manufacturing company that can supply the bikes for $600 per unit. Quality Bikes incurs the following annual production costs to produce 2,000 racing bikes internally:

	Per Unit Costs	Total Annual Costs
Variable Production Costs:		
Direct Materials	Shs 400	Shs 800,000
Direct Labour	Shs 100	Shs 200,000
Manufacturing Overheads	Shs 50	Shs 100,000
Fixed Production Costs		
Factory Building & Equipment lease		Shs 180,000
Factory Insurance		Shs 60,000
Production Supervisor's Salary		Shs 70,000
		Shs 1,410,000

Outsourcing will eliminate all variable production costs, the production supervisor's salary and factory Insurance costs. Factory Building & Equipment lease costs will remain the same regardless of the decision to outsource or produce internally.

Using differential cost analysis determine whether to manufacture or outsource. (9 marks)

QUESTION SIX

The income statement for Davann Co. presented below shows the operating results for the fiscal year just ended. Davann had sales of 1,800 tons of product during that year. The manufacturing capacity of Davann's facilities is 3,000 tons of products.