



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

**FOURTH YEAR FIRST SEMESTER EXAMINATIONS FOR
THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION WITH INFORMATION TECHNOLOGY**

HOMA-BAY CAMPUS

ABA 404: MANAGEMENT ACCOUNTING I

Date: 10th December, 2016

Time: 9.00 - 12.00 noon

INSTRUCTIONS:

- Answer question ONE (compulsory) and any other THREE questions.



QUESTION ONE (25 marks)

- a) Management Accounting has continued to emerge as an important part of firm management. However, critics have continuously pointed out that the discipline is limited. Outline the limitations of Management Accounting.

(5 marks)

- b) Mapema Limited is considering its plans for the year ending 31 December 2016. It makes and sells a single product, ZTWN for which it has budgeted costs and selling price as follows:

	Shs. per
Selling price	35
Direct materials	10
Direct labour	6
Production Overheads:	
Variable	3
Fixed	2
Selling overhead:	
Variable	4
Fixed	3
Administration overhead:	
Fixed	3

Fixed overhead costs per unit are based on a normal annual activity level of 90,000 units. These costs are expected to be incurred at a constant rate throughout the year. Activity levels during January and February 2016 are expected to be as follows:

	January	February
	Units	Units
Sales	7,000	8,750
Production	8,500	7,750

Required: Assuming that there will be no stocks held on January 1 2016:

- a) Prepare in columnar format, income statements for each of the two months of January and February 2016 using:
- (i) Absorption costing (6 marks)
 - (ii) Marginal costing (6 marks)
- b) Reconcile and explain the reasons for any differences between marginal and absorption profits for each month calculated in (a) above. (2 marks)
- c) Based upon marginal costing, calculate:
- (i) The annual break-even sales value; and (3 marks)
 - (ii) The activity level, in units, which will yield an annual profit of Shs. 122,000. (3 marks)

QUESTION TWO (15 marks)

For a number of years now, the research division of Alpha plc has produced its annual budget using incremental budgeting techniques. The company is now under new management and it has been suggested that the annual budget for 2016 be prepared using zero based budgeting techniques.

Required:

- (a) Discuss the advantages of operating the incremental budgeting technique. (8 marks)
- (b) Explain how Alpha plc could operate a zero based budgeting system for its research projects. (7 marks)

QUESTION THREE (15 marks)

Capital Fish Ltd. has been manufacturing and selling three fish products in Homa Bay. The market demand for the products on average has been as follows:

QUESTION FOUR (15 marks)

- a) The information below relates to Wazalendo Ltd. The company wants to establish how maintenance costs relate with machine hours with the intention of controlling costs in the maintenance department.

Month	Machine hours in Production departments	Maintenance department's Costs Sh.' 000
June	800	350
July	1,200	350
August	400	150
September	1,600	550

Required:

- i. Determine the cost estimation function using:
 - High-low method. (5 marks)
 - Regression analysis (5 marks)
- ii. Using the regression function estimate:
 - The maintenance costs that would have been incurred if the machine hours were expected to be 900 in the month of October 2015. (5 marks)

QUESTION FIVE (15 marks)

The Income Statements of Imara Daima Ltd and Hasara Kubwa Ltd for the year ended 31 December 2015 are presented below:

	Imara Daima		Hasara Kubwa	
	Ksh' 000	Percentage	Ksh'000	Percentage
Sales	500	100	500	100
Less: Variable	200	40	150	30
Contribution	300	60	350	70
Less: Fixed expenses	80		130	
Net Income	220		220	

Required:

- (a) Compute the Break-even point in units for each company. (5 marks)
- (b) Determine the Margin of Safety (MS) in Ksh for each company. (5 marks)
- (c) Advice each company's management on possible courses of action to improve their financial positions. (5 marks)

QUESTION SIX (15 marks)

- (a) The operating divisions of Alpha plc have in the past always used a traditional approach to analyzing costs into their fixed and variable components. A single measure of activity was always used, the number of units produces. The new management does not want to continue with this approach calling it simplistic. They have proposed the adoption of the activity based (ABC) approach. Explain how the ABC methodology would be beneficial to Alpha plc. (7 marks)
- (b) Explain the duties of a management accountant in an organization. (8 marks)