



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

**FOURTH YEAR SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION WITH INFORMATION TECHNOLOGY**

HOMABAY CAMPUS –SCHOOL BASED

ABA 404: MANAGEMENT ACCOUNTING

Date: 11th June, 2017

Time: 9.00 - 12.00pm

INSTRUCTIONS:

- Answer Question ONE and any other THREE.



QUESTION ONE

a) Assume that ABC Ltd makes four components with the following information:

	W	X	Y	Z
Production (units)	1000	2000	4000	3000
<hr/>				
Unit marginal costs				
Direct material	4	5	2	4
Direct labour	8	9	4	6
Variable O/H	<u>2</u>	<u>3</u>	<u>1</u>	<u>2</u>
	<u>14</u>	<u>17</u>	<u>7</u>	<u>12</u>
<hr/>				
Attribute Fixed Cost	sub contractor price			
	Sh.		Sh.	
TO W	1000	W	12	
	X	X	21	
	Y	Y	10	
	Z	Z	14	

Committed Fixed Costs are Sh.30000

Required

Advise the company on the components to buy or make if any (10 marks)

b) The theory of the experience curve is that an organization may increase its profitability through obtaining greater familiarity with supplying its products or services to customers. This reflects the view that profitability is solely a function of market share.

Required:

Discuss the extent to which the application of experience curve theory can help an organization to prolong the life cycle of its products or services. (15 marks)

QUESTION TWO

A multipurpose company furnishes you with the following data relating o a year.

	1st half	2nd half
	Sh.	Sh.
Sales	45000	50000
Total cost	40000	43000

Assuming that there is no change in prices and variable costs and that the fixed expenses are incurred equally in two half years.

Required:

- a) P/V ratio (4 marks)
- b) Fixed expenses (4 marks)
- c) Break Even sales (4 marks)
- d) Percentage of Margin of safety (3 marks)

QUESTION THREE

A company expects to have Sh.37,500 cash in hand as on 1st April and requires you to prepare an estimate of cash position during the three months, April, May, and June. The following information is supplied to you:

	Sales	Purchases	Wages	Factory expenses	Office Expenses	Selling expenses
	Sh.	Sh.	Sh.	Sh.	Sh.	Sh.
February	75000	45000	9000	7500	6000	4500
March	84000	48000	9750	8250	6000	4500
April	90000	52500	10500	9000	6000	5250
May	120000	60000	13500	11250	6000	6570
June	135000	60000	14250	14000	7000	7000

Other information:

1. Period of credit allowed by suppliers is 2 months
2. 20% of sales is for cash and period of credit allowed to customers for credit is one month.
3. Delay in payment of all expenses is one month.
4. Income tax of Sh. 57,500 is due to be paid on June 15th.
5. The company is to pay dividends to share holders and bonus to workers of Sh.15,000 and Sh.22,500 respectively in the month of April.
6. Plant has been ordered to be received and paid in May. It will cost Sh.120,000. (15 marks)

QUESTION FOUR

- a) Discuss the role of management accountant in the management process. (7 marks)
- b) Assume that ABC Ltd is trying to set the selling price for one of its products and three prices are under consideration. These are Sh.4, Sh.4.30 & Sh.4.40 The following information is also provided

Alternatives

Conditions	Sh.4.00	Sh.4.30	Sh.4.40
Best possible	16,000	14,000	12,500
Most likely	14,000	12,500	12,000

Worst possible	10,000	8,000	6,000
----------------	--------	-------	-------

Fixed costs = Sh. 20,000
variable cost per unit = Sh. 2

Required:

Advise the company on the best price to set (8 marks)

QUESTION FIVE

a) Decision making is the process of choosing among alternatives. Discuss the steps involved in decision making. (8 marks)

b) The monthly cost figures for production in a manufacturing company are:

Variable cost	Sh. 120000
Fixed cost	Sh. 35000

Normally monthly sales figure is Sh.200000.

Actual sales figures for three separate months are:

1st month	2nd month	3rd month
Sh. 200000	Sh. 165000	Sh. 235000

Under a system of marginal costing stock are valued as:

	1st month	2nd month	3rd month
	Sh.	Sh.	Sh.
Opening stock	84000	84000	105000
Closing stock	84000	105000	84000

If the marginal costing technique were not used stocks would be valued as follows:

	1st month Sh.	2nd month Sh.	3rd month Sh.
Opening stock	108500	108500	135625
Closing stock	108500	135625	108500

Required:

Prepare two tabulations side by side to summarize these results for each of the three months, basing one tabulation on marginal cost theory and the other tabulation alongside on absorption cost theory. (7 marks)

QUESTION SIX

Finak Ltd produces an article by blending two basic raw materials. It operates a standard costing system and the following standards have been set for new materials.

Material	Standard mix	Standard price per kg.
A	40%	Ksh.4
B	60%	Ksh.3

The standard loss in processing is 15%

During April 2014 the company produced 1700 Kgs. of finished output. The position of stocks and purchases for the month of April 2014 is as under:

	Stock on 1/4/2014	stock on 30/4/2014	Purchased during april 2014	
Materials	Kgs.	Kgs.	Kgs.	Cost (Ksh.)
A	35	5	800	3400
B	40	50	1200	3000

Required:

- a) Material Price Variance (3 marks)
- b) Material Usage Variance (3 marks)
- c) Material yield Variance (3 marks)
- d) Material Mix variance (3 marks)
- e) Total Material Cost Variance (3 marks)