



**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 416: MANAGEMENT ACCOUNTING II**

Date: 11<sup>th</sup> June, 2017

Time: 9.00 - 12.00 noon

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**INSTRUCTIONS:**

- Answer question ONE and any other THREE questions.



### QUESTION ONE

- (a) Identify and explain three types of decision making environments. (6 marks)  
(b) Nyundo Ltd manufactures a product whose standard variable cost is given below:

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|                                   |   |
|-----------------------------------|---|
| Direct materials (2 kg @ Sh 3)    | 6 |
| Direct labour (0.75 hours @ Sh 4) | 3 |
| Variable overheads                | 1 |

The company treats fixed costs as period costs and therefore they are not charged to products.

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The following information relates to the month of March 2001.

|                               | 1/3/2001 | 31/3/2001 |
|-------------------------------|----------|-----------|
|                               | Sh       | Sh        |
| Stocks (all at standard cost) |          |           |
| Raw materials                 | 12,000   | 6,000     |
| Finished goods                | 36,000   | 42,500    |

The following information is available for the month of March 2001:

|                                     | Sh      |
|-------------------------------------|---------|
| Sales @ Sh 20 per unit              | 200,000 |
| Material purchases @ Sh 3.50 per kg | 42,000  |
| Direct labour cost (8000 hours)     | 30,000  |
| Variable overheads                  | 12,000  |
| Material price variance (adverse)   | 21,000  |

The management is wondering whether they could have performed better.

#### Required:

Calculate the following variances in each case stating two possible causes:

- 
- |   |           |
|---|-----------|
| (a) Material usage variance                 | (6 marks) |
| (b) Labour rate variance.                   | (4 marks) |
| (c) Labour efficiency variance.             | (4 marks) |
| (d) Variable overhead expenditure variance: | (5 marks) |

## QUESTION TWO

- a) Explain the advantages of using Value Added Statements (VAS) for interdivision for comparisons in decentralized firm. (5 marks)
- b) ABC Lt. Is a manufacturing company that makes only three products P, Q, and R. Data for the period ended last month are as follows:

|                               | <b>P</b>   | <b>Q</b>   | <b>R</b>   |
|-------------------------------|------------|------------|------------|
| Units produced and sold       | 12,000     | 16,000     | 8,000      |
|                               | <b>Sh.</b> | <b>Sh.</b> | <b>Sh.</b> |
| Sales price per unit          | 50         | 70         | 60         |
| Direct material cost per unit | 16         | 24         | 20         |
| Direct labour cost per unit   | 8          | 12         | 8          |

| <b>Production overheads costs</b> | <b>Total</b>          | <b>Cost drivers</b>           |
|-----------------------------------|-----------------------|-------------------------------|
|                                   | <b>Sh.</b>            |                               |
| Machining costs                   | 102,000               | Machine hours                 |
| Production scheduling             | 84,000                | Machine hours                 |
| Set-up costs                      | 54,000                | Number of production runs     |
| Quality control                   | 49,200                | Number of production runs     |
| Receiving materials               | 64,800                | Number of components receipts |
| Packing materials                 | <u>36,000</u>         | Number of customer orders     |
|                                   | <b><u>390,000</u></b> |                               |

Information on the cost driver is given as follows:

|                               | <b>P</b> | <b>Q</b> | <b>R</b> |
|-------------------------------|----------|----------|----------|
| Direct labour hours per unit  | 1        | 1½       | 1        |
| Machine hours per unit        | ½        | 1        | 1½       |
| Number of components per unit | 3        | 5        | 8        |
| Number of component receipts  | 18       | 80       | 64       |
| Number of customer orders     | 6        | 20       | 10       |
| Number of production runs     | 6        | 16       | 8        |

**Required:**

Using activity based costing (ABC) show the cost and gross profit per unit for each product during the period. (10 marks)

**QUESTION THREE**

The Hypothetical Ltd employs a budgetary control system and measures performance on segment basis of its product line divisions, A and B. the budgeted and actual sales figures for the month of March are as follows:

| Division | unit Sales |        | Sales Revenue |         |
|----------|------------|--------|---------------|---------|
|          | Budgeted   | Actual | Budgeted      | Actual  |
| A        | 20,000     | 24,000 | 200,000       | 240,000 |
| B        | 40,000     | 40,000 | 200,000       | 240,000 |

The standard unit controllable variable costs are KSh.4 for product line A and Ksh.2 for product line B. the company's budgeted controllable fixed costs for the month are Ksh.20,000 each for product A and B, whereas the actual amounted to Ksh.22,000 for product A and Ksh.26,000 for product B. the attributable segment costs are: for product A, Ksh.40,000 (budgeted) and Ksh.44,000 (actual), and for product B, Ksh.60,000 (budgeted) and Ksh.64,000 (actual)

Assume that these costs represent all manufacturing costs and no opening and closing inventories. Actual variable manufacturing costs during March were Ksh.84,000 and Ksh.96,000 for divisions A and B respectively. The common firm wide cost are assumed to be Ksh.48,000 to be apportioned on the basis of segment sales revenue.

**Required:**

Prepare a performance evaluation report, if the Hypothetical Ltd employs profit centre basis of divisional performance measurement. (15 marks)

**QUESTION FOUR**

- Discuss the three main elements of strategic costs management. (5 marks)
- Explain the major characteristics of modern businesses that necessitate the introduction of a strategic cost management system. (5 marks)
- "If a manager searches for a system that will provide the 'true costs' of each service produced by his firm he is attempting the impossible". Discuss. (5 marks)

**QUESTION FIVE**

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

|                     | W         | X         | Y        | Z         |
|---------------------|-----------|-----------|----------|-----------|
| Production (units)  | 1000      | 2000      | 4000     | 3000      |
| 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> |

Attribute Fixed Cost

| TO | W | Sh.  | sub contractor price | Sh. |
|----|---|------|----------------------|-----|
|    | X | 1000 | W                    | 16  |
|    | Y | 5000 | X                    | 21  |
|    | Z | 6000 | Y                    | 10  |
|    |   | 8000 | Z                    | 18  |

Committed Fixed Costs are Sh.30000

Assume that machine hours per unit required to produce the components are:

|   | Machine Hours |
|---|---------------|
| W | 4             |
| X | 5             |
| Y | 3             |
| Z | 6             |

The total machine hours available are 27000 hours during the budget period.

**Required:**

Advise the company on which products to make and the ones to buy externally.

(7 marks)

b) Discuss the steps involved in responsibility accounting.

(8 marks)

### QUESTION SIX

From past experience, a company operating a standard cost accounting system has accumulated the following information in relation to variances in its monthly management accounts:

1. Its variances fall into two categories:

| Category                                | Percentage of total number of variances |
|---|---|
| Those which are not worth investigating | 64                                      |
|   | <u>36</u>                               |
| Those which are worth investigating     | <u>100</u>                              |

2. For the first category corrective action has eliminated 70% of the variances, but the remainder have continued unchanged.
3. The cost of an investigation averages Sh.3,500 and that of correcting variances averages sh.5,500.
4. The average cost of any variance not corrected is Sh.5,250 per month and the company's policy is to assess the present value of such costs at 2% per month for a period of five months.

**Required:**

- a) Two decision trees to represent the position if an investigation is carried out and the position when an investigation is not carried out. (5 marks)
- b) Recommend with supporting calculations, whether or not the company should follow a policy of investigating variances as a matter of routine. (5 marks)
- c) Explain briefly two types of circumstances that would give rise to variances in the first category and two types of circumstances that would give rise to variances in the second category. (5 marks)