

**MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**P.O. Box 972-60200 – Meru-Kenya.**

**Tel: 020-2069349, 061-2309217. 064-30320 Cell phone: +254 712524293, +254 789151411**

**Fax: 064-30321**

**Website:** [**www.must.ac.ke**](http://www.must.ac.ke) **Email:** [**info@must.ac.ke**](mailto:info@must.ac.ke)

**University Examinations 2014/2015**

FIRST YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

**BFD 5175: MANAGEMENT ACCOUNTING**

**DATE: AUGUST 2015 TIME: 3HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***three*** *questions*

**QUESTION ONE (30 MARKS)**

1. “Management Accounting is irredeemably irrelevant in modern corporate management. It is no wonder that business schools focus most on their training attention on financial accounting and financial management”. Do you agree with this school of thought? Discuss

(5 Marks)

1. A manufacturer produces and sells two products A and B. The unit price variable cost is shs.1,200 and shs.800 for A and B respectively. A review of selling prices is in progress and it has been estimated that, for each product an increase in the selling price would result in a fall in demand of 500 units per every shs.100 increase and similarly a decrease in shs.100 in price would result in an increase in demand of 500 units.

The current sales prices and sales demand are:

Product Price shs. Demand (units)

A 3000 15,000

B 5800 21,000

**Required:**

Calculate the profit maximizing price for each product (5 Marks)

1. Using relevant examples explain the following cost concepts as used in Management Accounting:
2. Relevant costs (2 Marks)
3. Committed costs (2 Marks)
4. Controllable costs (2 Marks)
5. Avoidable costs (2 Marks)
6. Mixed costs (2 Marks)
7. The following information was extracted from the records of controller of budget of Kanga Republic for the year 2014/2015

Exchequer issues in shs. Millions County M County B County H County T

Operational funds issued 4000 2000 3750 3000

Development funds 2750 4000 3000 4000

Local revenues collected in

millions 900 400 250 550

Total revenue/funds **7650**  **6400** **7000** **7550**

Expenditure in millions

Operational/recurrent 5125 1950 3800 3860

Development/capital 750 1550 140 560

Balance returned to National

Treasury-Exchequer 1775 2900 3060 3130

**7650** **6400** **7000** **7550**

**Actual expenditure analysis**

**Recurrent/Operational**

Staff salaries 3500 1200 2180 2000

MCA salaries and allowances 1000 400 1000 1200

Repairs and maintenance 200 200 150 120

Water electricity 20 10 20 10

Printing stationery 750 120 100 300

Fuels & Lubricants 250 20 100 230

MCA foreign trips 405 - 250 -

5125 1950 3800 3860

**Development/capital**

Purchase of residential house

for governor 150 - 140 -

Speaker - 200 - -

Planting of trees and flowers 100 150 - -

Purchasing hospital machinery

and equipment - - - -

Purchasing of motor vehicles for

County Officers 500 1000 - -

Construction of tarmac roads - - - 300

Construction and renovation

of stadiums - - - -

Construction of county h/quarters - - - 150

Renovation of towns pavements,

bus stages and parking slots - - - 110

New market trading halls - - - -

Towns street lighting programmes - 200 - -

**750** **1550** **140** **560**

County approved development

**budget in the year in shs. millions**

Planting of trees and flowers - - - -

Construction of tarmac roads 1000 1400 1000 1000

Street lighting renovations 100 200 100 50

Rehabilitation of stadiums 200 400 300 300

Construction of market

centers/halls 500 1000 600 500

Construction of county h/quarters - - - 1500

Renovations of towns pavements,

bus stage and parking slots 500 200 300 -

Hospital equipments and

machineries 400 700 600 600

Purchase of Governors and

Assembly speakers residential

houses - - - -

Purchase of motor vehicles for

County Officers 50 100 100 50

**2750** **4000** **3000** **4000**

**Required:**

From a standard costing and performance management point of responsibility accounting:

1. Are the above counties management performing? Discuss (4 Marks)
2. For each county, compute the absorption rate of the development funds or absorption/usage of the development funds by the county (4 Marks)
3. For each county, compute the absorption rate of the recurrent funds in the county recurrent budgets (4 Marks)
4. From a budget variances point of view which county would you rank the best in terms of cost management of the recurrent expenditure or operational activities? What would you attribute to be the cost drivers of excess operational costs in some counties? (4 Marks)
5. If elections were held immediately after the end of the financial year which county would you recommend the voters to vote their governor back to the office for a second term and why? (4 Marks)

**QUESTION TWO (10 MARKS)**

1. Explain at least four objectives of transfer pricing system (3 Marks)
2. Mega Ltd operates two divisions A and B. Division A manufactures two products X and Y. Product X is sold to the external market at shs.420 per unit. The only market for product Y is division B. Division B can obtain its input (product Y) from either division A or form an external supplier. Currently division B has an offer for product Y of shs.380 per unit from the external supplier. The capacity of division A is measured in units of output, irrespective of whether product X,Y or a combination of both are produced. The associated product costs are as follows:

Product X(shs) Product Y (shs)

Variable cost per unit 320 350

Fixed overheads per unit 50 50

370 400

**Required:**

1. Advise the management of division A on the appropriate transfer price of product Y to division B if:
2. Division A has a spare capacity and a limited external demand for product X (2 Marks)
3. Of division A is operating at full capacity with unsatisfied external demand for product X (1 Marks)
4. Transfer pricing of products between processes in a manufacturing company can be done at either cost or at sale value at the point of transfer (1 Marks)
5. Discuss the merits of each of the above method in a(iii) the context of a manager’s responsibility accounting (3 Marks)

**QUESTION THREE (10 MARKS)**

Dotcom Meru industries has two automated machines; A and B which the company uses to produce decorative lamp stands. The company is experiencing production capacity constraints and has decided to produce only one of the following lampstand model, namely Mwangaza, Uwezo, Upendo in the month of August 2015.

The following information relates to the projected data for each of the lampstand models for the month of August 2015.

Mwangaza Uwezo Upendo

Maximum sales units 7,400 10,000 12,000

Lampstand unit data

Selling price (shs) 900 800 1000

Machine time (hours)

A 0.25 0.15 0.3

B 0.20 0.225 0.25

Additional information

1. Machine A has a maximum operating capacity of 1700 hours while machine B has a maximum operating capacity of 1920 hours
2. The required quantity of timber available is 17000 meters. Each lampstand requires two metres of timber.
3. The cost of timber is shs.50 per metre
4. Variable machine overhead costs for machine A and B are estimated at shs.500 and shs.600 per machine hour respectively
5. Assume that all units produced are sold

**Required:**

1. Determine which lampstand the company should produce for the month of August 2015 to maximize profits (5 Marks)
2. The company intends to utilize the surplus hours from lampstand production which would earn a contribution of shs.400,000 and shs.600,000 per machine hour for machines A and B respectively. Determine the lampstand model that should be produced based on the proposal of machine contribution and comment on your results (5 Marks)

**QUESTION FOUR (10 MARKS)**

The following information was extracted from the production and sales records of Kama detergents Ltd for the years 2011 to 2014

2011 2012 2013 2014

Production (litres) 60,000 75,000 55,000 65,000

Sales (litres) 60,000 55,000 65,000 70,000

Opening stock (litres) - - 15,000 5,000

Closing stock (litres) - 15,000 5,000 -

The company deals only with single product detergent. Its production level of activity is 60000 litres per period and its cost data is as follows:

Cost per litre (shs)

Direct material 2.50

Direct labour 3.00

Production overheads based on 200% of

direct labour 6.00

Total cost per litre 11.50

Selling price per litre 18

Administrative overhead costs are fixed at shs.100,000 per period and half of the production overheads are fixed

**Required:**

Prepare operating statement for the company for the years 2011-2014 using

1. Marginal costing (3 Marks)
2. Absorption costing (3 Marks)
3. Explain how activity based costing is different from marginal and absorption costing (4 Marks)

**QUESTION FIVE (10 MARKS)**

1. Explain briefly the following costing methods:
2. Life cycle costing (2 Marks)
3. Target costing (2 Marks)
4. Highlight limitation of linear regression analysis in the context of management accounting (2 Marks)
5. Strategic management accounting advocates for the use of balanced scorecard and benchmarking in the performance measurement and management of divisions, subsidiaries and branches of corporate entities

**Required:**

Discus using practical examples concepts of balanced scorecard and benchmarking (4 Marks)