



**JARAMOGI OGINGA ODINGA UNIVERSITY OF  
AGRICULTURE AND TECHNOLOGY  
BACHELOR OF BUSINESS ADMINISTRATION with INFORMATION  
TECHNOLOGY (BBA with IT) (FOR BUSIA LEARNING CENTRE )  
END OF SECOND SEMESTER FOURTH YEAR UNIVERSITY  
EXAMINATIONS 2013/2014**

**ABA 416 MANAGEMENT ACCOUNTING 2  
ANSWER QUESTION ONE AND OTHER TWO**

**QUESTION ONE**

- a) Explain the advantages of using Value Added Statements (VAS) for interdivision for comparisons in decentralized firm. (8 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
Production overheads costs	<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 drier 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. (12 marks)

C)A manufacturer produces and sells two products, A and B. The unit variable cost is sh.12 and sh.8 for A and B respectively. A review of selling prices is in progress and it has been estimated that, for each product and increase in the selling price would result in a fall in demand of Sh.500 units per every Sh.1 increase in price and similarly a decrease of Sh.1 in price would result in an increase in demand of 500 units.

The current sales prices and sales demand are:-

	Price (Sh.)	Demand (Units)
A	30	15,000
B	58	21,000

**Required:**

Calculate the profit-maximizing price for each product. (10 marks)

**QUESTION TWO**

a) Mount Sinai Health Centre specializes in the provision of sports/exercise and medical/dietary advice to clients. The service is provided on a residential basis and clients reside for whatever number of days that suit their needs.

Budgeted estimates for the year ending 300 June 2002 are as follows:

- The maximum capacity of the center is 50 clients per day for 350 days in the year.
- Clients will be invoiced at a fee per day. The budgeted occupancy level will vary with the client fee level per day and is estimated at different percentages of maximum capacity as follows:

Client fee per day (sh)	Occupancy level	Occupancy as a percentage of maximum capacity
3,600	High	90%
4,000	Most likely	75%
4,400	Low	60%

- Variable costs are also estimated at one of the three levels per client day. The high most likely and low levels per client per day are Sh.1,900, Sh.1,700 ad Sh.1,400 respectively.
- The range of cost levels reflects only the possible effect of the purchase prices of goods and services.

**Required:**

- A summary which shows the budgeted contribution to be earned by Mount Sinai Health Centre for the year ended 30 June 2002 for each of the nine possible outcomes. (11 marks)
- State the client fee strategy for the year to end 30 June 20002 which will result from the use of each of the following decision rules.
  - Maximax;
  - Maximin;
  - Minimax regret. (8 marks)

- b) The probabilities of variable costs levels occurring at the high, most likely and low levels provided in the question are estimated at 0.1, 0.6 and 0.3 respectively

**Required:**

Compute the maximum amount you would be willing to pay to acquire perfect information.  
(5 marks)

**(Total: 20 marks)**

**QUESTION THREE**

You have been provided with the following summarised accounts of Golden Times Ltd. For the year ended 31 March 2000:

Balance sheet as at 31 March 2000

<b>Fixed assets:</b>	<b>Sh.</b>	<b>Sh.</b>	<b>Sh.</b>
Freehold property (Net book value)			480,000
Plant and machinery (Net book value)			800,000
Motor vehicles (Net book value)			200,000
Furniture and fittings (Net book value)			<u>200,000</u>
			1,680,000
<b>Current Assets:</b>			
Stocks		1,000,000	
Debtors		400,000	
Investments		<u>120,000</u>	
		1,500,000	
<b>Current liabilities:</b>			
Trade creditors			
Bank overdraft	238,400		
Corporation tax	878,400		
Dividends payable	176,000		
	<u>107,200</u>	<u>(1,400,000)</u>	<u>120,000</u>
			<u>1,800,000</u>
<b>Financed by:</b>			
Authorised share capital – 800,000			
Sh.1 ordinary shares			
Issued and fully paid: 400,000 Sh.1 Ordinary shares			400,000
Capital reserve			200,000
Revenue reserve			800,000
Loan capital: 400,000 10% Sh.1 Debentures			
			<u>400,000</u>
			<u>1,800,000</u>

**Profit and loss account for the year ended 31 March 2000**

	<b>Sh.</b>
Sales (credit)	<u>4,000,000</u>
Profit after charging all expenses except interest on debentures	440,000
Less: debenture interest	<u>40,000</u>
Profit before tax	400,000
Corporation tax	<u>176,000</u>
	224,000
Less: ordinary dividend proposed	<u>107,200</u>
Retained profit transferred to revenue reserve	<u>116,800</u>

The following additional information was available:

1. The purchases for the year were Sh.2,160,000 while the cost of sales was Sh.3,000,000.
2. The market price for Golden Times Ltd. Ordinary shares as at 31 March 2000 was Sh.5
3. The company estimates the current value of its freehold property at Sh.1,100,000.

**Required:**

- (a) Compute the following ratios for Golden Times Ltd.:
- |        |   |           |
|--------|---|-----------|
| (i)    | Return on capital employed                          | (1 mark)  |
| (ii)   | The profit margin                                   | (2 marks) |
| (iii)  | The turnover of capital                             | (1 mark)  |
| (iv)   | Current ratio;                                      | (1 mark)  |
| (v)    | Liquid ratio;                                       | (2 marks) |
| (vi)   | Number of days accounts receivable are outstanding; | (1 mark)  |
| (vii)  | Property ratio;                                     | (2 marks) |
| (viii) | Stock turnover ratio;                               | (1 mark)  |
| (ix)   | Dividend yield ratio;                               | (1 mark)  |
| (x)    | Price earnings ratio.                               | (2 marks) |
- (b) Comment on Golden Times Ltd. Liquidity stating the reference points to which relevant ratios can be compared. (6 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

Given below are the comparative balance sheets of Tausi Ltd., a trading company, for the years ended 31 October 2000 and 2001:

	2001		2000	
	Sh.'000'	Sh.'000'	Sh.'000'	Sh.'000'
<b>Assets</b>				
Non current assets:				
Goodwill	23,500		32,650	
Premises	200,000		80,000	
Plant and machinery	290,100		278,200	
Office equipment	<u>126,250</u>	639,850	<u>87,360</u>	478,210
Current assets:				
Stock	88,890		67,815	
Debtors	57,890		52,015	
Bank	<u>9,210</u>		—	<u>119,830</u>
		<u>155,990</u>		<u>598,040</u>
<b>Capital and Liabilities</b>				
Capital:				
Ordinary shares	425,000		250,000	
10% redeemable preference shares	75,000		160,000	
Share capital	33,000		-	
Capital redemption reserve	30,000		-	
General reserve	38,000		12,000	
Profit and loss account	<u>22,300</u>		<u>11,200</u>	
		<u>623,300</u>		433,200
Non-current liability				
Bank loan				
		63,000		50,000
<b>Current liabilities</b>				
Creditors				

Current tax	49,820		40,290	
Proposed ordinary dividends	30,500		28,500	
Accruals	26,000		18,000	
Bank overdraft	3,200		5,420	
	—	<u>109,540</u>	<u>22,630</u>	<u>114,840</u>
		<u>795,840</u>		<u>598,040</u>

**The following additional information is provided:**

- Some of the redeemable preference shares which had been issued at par, were redeemed at a premium of 2%. To finance the redemption and comply with the Companies Act requirements, the company simultaneously carried out the following:
  - Issued 5,500,000 additional ordinary shares of Sh.10 at a total premium of Sh.34,700,000.
  - Transferred sufficient amounts to the capital redemption reserve.
  - Financed the premium on redemption out of the premium received on issue of the additional ordinary shares.
- Preference dividends are paid at the end of each financial year on shares outstanding then.
- Part of plant and machinery which had cost Sh.60,000,000 on acquisition and on which Sh.42,000,000 accumulated depreciation had been provided was sold for Sh.25,000,000 during the year.
- Included in the depreciation charge for the year is Sh.15,100,000 in respect of plant and machinery.
- New office equipment was purchased in the year for Sh.55,000,000. There was no disposal of office equipment during the year.
- It is the company's policy not to depreciate premises. The change in the premises account balance was due to a revaluation of the asset.
- The revaluation reserve arising in (6) above was all to finance the issue of fully paid-up bonus shares of Sh.10 each to ordinary shareholders.
- A new bank loan of Sh.25,000,000 was received in the year. Bank interest of Sh.8,000,000 was also paid in the year.
- Current tax liability is in respect of the tax charge for the respective year.
- During the year ended 31 October 2001 an interim dividend of Sh.14,000,000 was paid.

**Required:**

Cash flow statement in accordance with IAS 7.

**(Total: 20 marks)**

**QUESTION FIVE**

H Ltd owned S Ltd since the date of incorporation of S Ltd. The balance sheets of the two companies as at 31 December 20X2 is as follows.

	H Ltd		S Ltd	
	£	£	£	£
<b>Non Current assets</b>				
Tangible – PPE		35,000.00		45,000.00
Investment in S Ltd		45,000.00		
		<u>80,000.00</u>		<u>45,000.00</u>
<b>Current assets</b>				
Inventory	16,000.00		12,000.00	
Accounts receivables	8,000.00		9,000.00	
Cash at bank	1,000.00	25,000.00	-	21,000.00
<b>TOTAL ASSETS</b>		<u>105,000.00</u>		<u>66,000.00</u>

Share Capital	70,000.00	40,000.00
Retained profits	<u>11,000.00</u>	<u>19,000.00</u>
	81,000.00	59,000.00

**Non Current Liabilities**

10% Loan Stock	10,000.00	-
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**Current Liabilities**

Bank Overdraft	-	3,000.00	
Accounts Payable	<u>14,000.00</u>	<u>14,000.00</u>	<u>4,000.00</u>
	<u>105,000.00</u>		<u>66,000.00</u>

**Required;**

Prepare the consolidated balance sheet of H Ltd and S Ltd as at 31 December 20X2  
( 10 Marks)

H Ltd acquired 75% of the ordinary shares of S Ltd since S Ltd was incorporated. The Summarized income statement for the two companies for the year ending 31 December

20X2 is as follows:

	H Ltd	S Ltd
	£	£
Sales revenue	75,000.00	38,000.00
Cost of sales	<u>(30,000.00)</u>	<u>(20,000.00)</u>
Gross profit	45,000.00	18,000.00
Operating expenses	<u>(14,000.00)</u>	<u>(8,000.00)</u>
Profit before tax	31,000.00	10,000.00
Taxation	<u>(10,000.00)</u>	<u>(2,000.00)</u>
Profit after tax	21,000.00	8,000.00
Retained profit b/f	<u>87,000.00</u>	<u>17,000.00</u>
Retained profit c/f	<u>108,000.00</u>	<u>25,000.00</u>

**Required:**

Prepare the consolidated income statement for the year ended 31 December 20X2.

(10 Marks)