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**University Examinations 2015/2016**

FOURHT YEAR FIRST & SECOND SEMESTER EXAMINATION FOR THE DEGREE

OF

BACHELOR OF COMMERCE

BACHELOR OF PURCHASING AND SUPPLIES MANAGEMENT

**BFC 3425: MANAGEMENT ACCOUNTING**

**DATE: APRIL 2016 TIME: 2 HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two***questions.

**QUESTION ONE (30 MARKS)**

1. At the Board of Directors, Prof. Makau, a logistics director argued that “Management Accounting is no different from Financial Accounting. Therefore, its installation, being a mere waste of resources, contravenes the primary goal of any firm which is maximization of profit.’

Required:

Citing a firm with which you are familiar with, discuss the foregoing sentiments by Prof. Makau. (8 marks)

1. Explain three differences between budgeting and standard costing (6 marks)
2. A company that deals with quail eggs has developed the following demand and cost function:

 where P is he unit selling price while q is the quantity of quail eggs in thousands.

Cost function:  where Tc = total cost.

Required:

Compute:

1. Optimal price to maximize profit (2 marks)
2. Marginal Revenue (2 marks)
3. Maximum profit (2 marks)
4. Interdecade Incorporation has prepared a schedule of overhead cost estimation in conducting artificial insemination Services in a given population at an estimated level of 160,000 tests. Overhead cost have been classified as follows:

Overheads: Costs

Shs.

Rent 2,364 - All fixed

Utilities 270 - All variable

Depreciation 810 - All fixed

Maintenance 245 - Sh.85,000 fixed

Supplies 370 - All variable

Indirect labour 1,940 - Shs1, 710 fixed

Data processing 250 - Sh.158,000 fixed

Required, Compute:

1. A cost estimation relationship using the account analysis approach using the population as the only cost drives. (4 marks)
2. The cost of attending 182,000 cases of A.I (3 marks)
3. The coefficient of determination  of the model in (i) above in estimated to be 0.72. Explain what this means in relation to the estimation line and comment on the accuracy of the model. (3 marks)

**QUESTION TWO (20 MARKS)**

1. Describe the following terminologies in relation to a preparation of a budget:
2. Budget period (3 marks)
3. Budget committee (3 marks)
4. Budget manual (3 marks)
5. Kimani and Otieno who are in partnership wish to prepare a budget for material requirements. They have requested for your assistance and presented the following information:
6. Sales budget for the five months from June 2015 to October 2015 was as follows:

Units

June 10,800

July 15,600

August 12,200

September 10,400

October 800

1. Finished goods at the end of each mont are to be maintained at 30% of sales estimate for the month.
2. The closing stock of finished goods for the month of June was 4,000 units.
3. There is no closing Work in Progress (WIP) in any month.
4. Each unit requires 5kg of material q and 4 kg of material P.
5. Materials at the end of every month are to be maintained at a quarter of the requirements for the following month.

Required:

1. Production budget for the month of June, July, August and September 2015. (3 marks)
2. Material ‘P’ usage budget for the months of June, July and August. (4 marks)
3. Material ‘Q’ usage budget for the month of June, July and August. (4 marks)

**QUESTION THREE (20 MARKS)**

1. Discuss four types of standards as enumerated in Standard Costing. (4 marks)
2. A sales manager collected data of the intelligence of his salesmen and compared this with the sales performance in a week. The results were as follows:

Salesmen A B C D E F G H I

Intelligence (%) 60 50 80 95 75 80 92 75 85

Sales per week (sh.000) 70 45 90 40 80 100 120 75 50

Required:

1. The manager has asked you to determine where there is any relationship between intelligence of a salesman and his performance on a weekly basis. (use a graph) (8 marks)
2. He is also interested in determining the average relationship between intelligence and the sales using the Regression method. (4 marks)
3. Suppose a salesman made sales of Sh.65,000 in a week, what would be his possible intelligence? (2 marks)
4. A salesman who is looking for a job claims that he has an intelligence level of 87%. What sales performance can be expected from him in a week? (2 marks)

**QUESTION FOUR (20 MARKS)**

1. Citing a firm which you are familiar with, explain the significance of responsibility accounting, the problems experienced in implementing this system and possible solution thereof. (6 marks)
2. Wampa Ltd is establishing a production schedule for its products, with the following estimates.

Fixed cost p.a Sh.200, 000

Price per unit Sh. 1,500

Variable cost/unit Sh.1,000

The firm expects sales to be normally distributed with equal chances of the range being 350 units to 450 units.

Required:

1. The expected profit and its standard deviation (4 marks)
2. The probability of at least braking even (3 marks)
3. The probability of making at least Sh. 42,000 profit (2 marks)
4. The probability of making a loss of at least Sh. 30,000 (2 marks)
5. The probability that profit is between Shs. 65,000 and Shs. 80,000 (3 marks)

**QUESTION FIVE (20 MARKS)**

1. Discuss FOUR limitations of Cost Volume Profit Analysis (4 marks)
2. Explain the key methods that may be used by a firm that uses Transfer pricing. (3 marks)
3. Discuss any THREE performance evaluation techniques which may be applied in a firm

(6 marks)

1. SWV Public Limited Company manufactures a product known as TRD 100 by mixing two materials. The standard material cost per unit of the TRD 100 is as follows:

Material X 12l @Sh. 25

Material Y 18l @ Sh.30

In October 2015, the actual mix used was 984l of X and 1230l of Y. The actual output was 72 units of TRD 100.

Required, Calculate:

1. The material price variance (3 marks)
2. The material quantity variance (4 marks)