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**University Examinations 2015/2016**

FIRST YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF

MASTER OF

BUSINESS ADMINISTRATION

**BFA 5175: MANAGEMENT ACCOUNTING**

**DATE: AUGUST 2016 TIME: 2 HOURS**

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

**QUESTION ONE (40 MARKS)**

1. The following data relate to Kenya Ltd for the year ended 31 December 1999.

|  |  |
| --- | --- |
|  | Sh ‘000’ |
| Sales  | 24,000 |
| Less: Total costs | 20,000 |
| Net profit  |  |

Fixed costs account for 40% of the total costs.

Required:

1. Margin of safety. (2 marks)
2. Break-even point in sales (4 marks)
3. Sales required to earn profit of Sh.6,000,000 (4 marks)
4. In order to increase sales, the management has the following two options:
5. To increase sales by 25% on reducing selling price by 5%.
6. To increase sales by 15% on reducing selling price by 5%.

Advise the management on which option they should taken. (10 marks)

1. The following information has been extracted from the books of Solarcross Ltd for the year to 31 March 2000:

|  |  |
| --- | --- |
|  | Units ‘000’ |
| Production | 30 |
| Sales | 24 |
| Production cost incurred: | Sh ‘000’ |
| Direct material  | 7,200 |
| Direct labour  | 1,800 |
| Variable overheads  | 1,500 |
| Fixed overheads  | 2,700 |
| Selling and administrations costs: |  |
| Sales and Salaries  | 450 |
| Variable sales commission  | 300 |
| Promotion and advertising  | 480 |
| Other fixed costs  | 720 |

The company’s unit selling price is Sh 550.

Required:

1. Profit and loss statement under direct costing approach (8 marks)
2. Profit and loss statement under indirect costing approach. (8 marks)
3. An explanation of the difference in profit or loss in (a) and (b) above. (4 marks)

**QUESTION TWO (20 MARKS)**

1. In the context of budgetary control explain the main functions and importance of a cash budget. (5 marks)
2. You are in charge of making forecasts and preparing budgets. You have been supplied with cost and revenue forecasts and details of payment as follows:
3. Forecast of revenue and costs for the quarter ending 31 March 2001

|  |  |  |  |
| --- | --- | --- | --- |
|  | January  | February  | March  |
|  | Shs. | Shs. | Shs. |
| **Direct**  |  |  |  |
| Materials (purchases) | 112,000 | 100,000 | 135,000 |
| Wages | 90,000 | 80,000 | 100,000 |
| **Overhead** |  |  |  |
| Production  | 34,000 | 32,000 | 40,000 |
| Administration | 22,000 | 20,000 | 27,000 |
| Selling and distribution  | 13,000 | 11,000 | 18,000 |
| Sales  | 360,000 | 350,000 | 440,000 |

1. **Forecast of revenue and costs for the quarter ending 30 June 2001**

|  |  |  |  |
| --- | --- | --- | --- |
|  | April  | May  | June  |
|  | Shs. | Shs. | Shs. |
| **Direct**  |  |  |  |
| Materials (purchases) | 90,000 | 67,000 | 79,000 |
| Wages | 72,000 | 54,000 | 63,000 |
| **Overhead** |  |  |  |
| Production  | 45,000 | 36,000 | 40,000 |
| Administration | 22,000 | 25,000 | 27,000 |
| Selling and distribution  | 13,000 | 11,000 | 16,000 |
| Sales  | 350,000 | 360,000 | 360,000 |
| Cash balance on 1 April 2001 |  |  | 90,000 |

1. Other details
* Period of credit allowed by suppliers averages two months.
* Debenture to the value of Shs.125,000 are being issued in May 2001 and the amount is expected to be received during the month.
* A new machine is being installed at the end of March 2001 at a cost of Sh 150,000 and payment is promised in early May 2001.
* Sales commission of 3% is payable within one month of sales.
* A dividend of Sh 100,000 is to be paid in June 2001.
* There is a delay of one month in the payment of overheads. There is also a delay in payment of wages averaging a quarter of a month.
* Twenty per cent of the debtors pay cash, receiving a cash discount of 4% and 70% of debtors pay within one month and received a cash discount of 1 ½ %. The other debtors pay within two months.

**Required:**

A cash budget on a monthly basis from the second quarter of the year 2001. (15 marks)

**QUESTION THREE (20 MARKS)**

1. What is the basic difference between account classification method and high-low method as applied in cost estimation? (4 marks)
2. The following data has been provided by a catering company that prepares banquets and parties for both individuals and business functions through the year. The data indicates that overhead expenses vary with the direct labour hours expended.

|  |  |  |
| --- | --- | --- |
| Month  | Labour hours | Overhead costs (Sh.) |
| January | 2,500 | 55,000 |
| February  | 2,700 | 59,000 |
| March | 3,000 | 60,000 |
| April | 4,200 | 64,000 |
| May | 4,500 | 67,000 |
| June | 5,500 | 71,000 |
| July | 6,500 | 74,000 |
| August | 7,500 | 77,000 |
| September  | 7,000 | 75,000 |
| October  | 4,500 | 68,000 |
| November | 3,100 | 62,000 |
| December | 6,500 | 73,000 |
| Total  |  |  |

**Required:**

1. Using regression analysis, calculate the variable cost per person for a cocktail party, if the following additional information is given. The cost structure on a person basis is;

Food and beverages Sh.15.00

Labour (0.5) 5.00 (15 marks)

1. The company has asked you to prepare a bid for a 200 person cocktail party to be given next month. Determine the minimum bid price the company would be willing to submit to earn a profit. (5 marks)

**QUESTION FOUR (20 MARKS)**

1. Describe the main differences between financial accounting and management accounting

(8 marks)

1. A company manufactures and sells three products A, B and C. The unit cost and revenue structure for each product and its maximum forecast demand for the coming period are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| Product  | A | B | C |
| Selling price per unit (Shs.) | 140 | 100 | 120 |
| Variable cost per unit (Shs.) | 70 | 60 | 80 |
| Maximum demand (units) | 500 | 300 | 300 |
| Machine hours required per unit | 10 | 4 | 5 |

The company has a maximum of 6000 machine hours available during the coming period.

**Required:**

1. Calculate the number of units of each product A, B and C which should be produced and sold in order to maximize profit. (4 marks)
2. Calculate the maximum profit earned from the decision strategy per 1 (2 marks)
3. Suggest other factors which management may wish to consider which could result in a change in their decision. (2 marks)
4. Calculate the product units to be produced and sold and the net profit earned if the company wish to maximize sales of product A because it is thought to be a future market leader. (2 marks)
5. Calculate the product units to be sold and the net profit earned if the company agree to produce a manimum of 70% of the maximum demand of each product in order to maintain market spread. (2 marks)

**QUESTION FIVE (20 MARKS)**

1. Lotus Ltd manufactures mobile telephones. The current operating level is 400,000 phones but full capacity is 550,000. The phones normally sell for Sh.1,500 per phone. Manufacturing cost data of 400,000 phones is as shown below:

|  |  |  |
| --- | --- | --- |
|  | Sh ‘000’ | Sh ‘000’ |
| **Manufacturing costs** |  |  |
| Variable costs | 300,000 |  |
| Fixed costs  |  | 487,500 |
| **Selling and administration costs** |  |  |
| Variable (freight and commissions) costs  | 30,000 |  |
| Fixed costs  |  |  |
|  |  | 577,500 |

A vendor offers to buy 100,000 phones for export at Sh 1,125 per phone. The buyer will pay for freight and no commissions will be paid. The acceptance of this offer will not affect the present sales. The managing director is reluctant to accept that offer because he believes that the offer price of Sh.1,125 is well below the manufacturing cost per unit.

Required:

1. Should the offer be accepted? (7 marks)
2. What factors should be considered before accepting the order? (3 marks)
3. Wassant Ltd manufactures a product that uses components made by the company. Due to market liberalization, the same component can be bought from an importer of the component. The management accountant of Wassant Ltd. has provided the following manufacturing data for the component:

|  |  |
| --- | --- |
|  | Shs. |
| Direct material |  |
|  10kg of zero 1 @ Sh 25 per kg | 250 |
| Direct labour |  |
| Department 1 0.75 hours x Sh 120 |  |
|  2 0.6 hours x Sh 125 | 165 |
| Variable overheads | 80 |

Production overheads are recovered on basis of 20% of labour costs in both departments. The cost accountant anticipates that three-quarters of fixed overhead will be incurred irrespective of the decision made. The importer is willing to sell the component at Sh 510 per unit.

Required:

1. Advise the management of Wassant Ltd whether to make or buy the component. (7 marks)
2. What other factors would Wassant Ltd consider before making the decision (3 marks)