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(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2015/2016 ACADEMIC YEAR

FIRST YEAR FIRST SEMESTER

MAIN EXAMINATION

FOR THE MASTER OF BUSINESS ADMINISTRATION

COURSE CODE: MBA 804

COURSE TITLE: MANAGEMENT ACCOUNTING

DATE: 9.5.2016 **TIME:** 2pm - 5pm.

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other WO (2) Questions in Section B

TIME: 3 Hours

KIBUCO observes ZERO tolerance to examination cheating

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QUESTION ONE

- a) The production manager of XYZ Company, is concerned about the apparent fluctuation in efficiency and wants to determine how labor costs (in Sh.) are related to volume. The following data presents results of the 12 most recent weeks.

Week No. Units Produced (X) Labour Costs (Y)

1	34	340
2	44	346
3	24	287
4	36	262
5	30	220
6	49	416
7	39	337
8	21	180
9	41	376
10	47	295
11	34	215
12	24	275

Using the above information establish the line of best fit equation using regression analysis and what would be the labor cost for producing 140 units **(6 mks)**

- b) What is the relevance of cost classification? Is it merely an activity for the sake of it? Explain **(4 mks)**

c) Discuss the behavioral classification of costs, explaining all the terms used there in **(4mks)**.

- d) Two Left Feet Ltd manufactures a single product, the Claud. The following figures relate to the Claud for a one-year period,

Activity level		50%	100%
Sales and productions (units)		400	800
		Ksh.	Ksh.
Sales		8,000	16,000
Production costs:	Variable	3,200	6,400
	Fixed	1,600	1,600
Sales and distribution costs:	Variable	1,600	3,200
	Fixed	2,400	2,400

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The normal level of activity for the year is 800 units. Fixed costs are incurred evenly throughout the year, and actual fixed costs are the same as budgeted.

There were no stocks of Claud at the beginning of the year.

In the first quarter, 220 units were produced and 160 units sold.

Now:

- i) Calculate the fixed production costs absorbed by Clauds in the first quarter if absorption costing is used,
 - ii) Calculate the profit using absorption costing,
 - iii) Calculate the profit using marginal costing, **(9 mks)**
- e) Explain the difference between the following terms
- a. Product cost and period cost
 - b. Sunk cost and relevant cost
 - c. Incremental and sunk costs
 - d. Fixed and variable cost
 - e. Avoidable and unavoidable costs
 - f. Controllable and uncontrollable costs
 - g. Direct and indirect costs **(7mks)**

QUESTION TWO

Forecasts of revenue and costs for the quarter ending 30th June 2011

000)	April (shs 000)	May (shs 000)	June (shs
Direct materials purchases	90	67	79
Wages	72	54	63
Production overheads	45	36	40
Administration	22	25	27
Selling and distribution	13	11	16
Sales	350	360	360

Cash balance on 1st April 2011 shs 90,000

Other details include

- i) Period of credit allowed by suppliers average two months

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- ii) Debentures to the value of shs 125,000 are being issued in May 2011 and the amount will be received during the month
- iii) A new machine is being installed at the end March 2011 at the cost of shs 150 and payment is promised in early May 2011
- iv) Sales commission of 3% is payable within one month of sale
- v) A dividend of shs 100,000 is to be paid in June 2011
- vi) There's is a delay of one month in the payment of overheads
- vii) There is also a delay in payment of wages averaging a quarter of a month

20% of the debtors pay cash, receiving cash discount of 4% and 70% of the debtors pay within one month and receive a cash discount of 2%. The other debtors pay within two months

Required

A cash budget on a monthly basis for the second quarter of the year 2011. **(20 mks)**

QUESTION THREE

- a) The following data relates to optimal Company a manufacturer of toothpaste product

Financial Extracts for the month were as follows for the month of Jan 2011

Fixed costs	shs 200,000
Variable	shs 12 per unit
Selling price	shs 28 per unit

The current production capacity and the number of units produced and sold is 37500

Required

- i) The breakeven point in shs and units
- ii) The percentage capacity at breakeven point
- iii) The profit or loss at the current production capacity
- iv) A new breakeven point in units assuming a new a machine is brought, in order to increase production. The new machine will increase fixed costs by shs 70,000 but the variable cost will reduce to shs 7 per unit **(14 mks)**

- b) Outline the usefulness of cost volume profit analysis in business decision making **(6mks)**

QUESTION FOUR

Job Ltd manufactures a standard product whose standard cost is given below

	Shs
Direct materials (4kgs@shs 10 per kg)	40
Direct labour (6 hrs @shs 15 per hour)	90

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Variable overheads (6hrs @shs 10)	60
Fixed overheads	<u>20</u>
	210
Standard profit	<u>40</u>
Selling price	250

Normal production per month is 25,000 units. During the month ended 31st October 2011,

Firms produced and sold 24,500 units as follows;

Sales (24500 units)		shs 6,370,000
Less cost		
Direct materials (91875 kgs)	1,102,500	
Direct labour (134,750hrs)	2,241,730	
Variable overheads	910,000	
Fixed overheads	<u>250,000</u>	<u>4,504,230</u>
Net profit		1,865,770

REQUIRED

- Material price and Usage variance
- Labour rate and efficiency variance
- Discuss the causes of the variances(20 mks)

QUESTION FIVE

- High tax Engeneering Company Ltd wishes to set flexible budgets for each of its operating departments. A separate maintenance department performs all routine and major repair work of the company's equipment and facilities. The company has determined that the maintenance cost is a primary function of machine hours worked in various production departments

The maintenance cost incurred and the actual machine hours worked during the months of Jan, Feb, March, and April 2003 were as follows

Month	machine hrs in production department	maintenance department
January	800	350
February	1200	350
March	400	150
April	1600	550

Required Determine the cost estimating equations under the high low method (12 mks)

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- b) The functional classification of costs classifies costs as production costs, administration costs as well as selling and administration costs. Explain what constitutes these costs in detail. (8 mks)

END

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