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KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
MAINEXAM
2017/2018 ACADEMIC YEAR
FIRST YEAR SECOND SEMESTER
FOR THE DEGREE OF MASTER OF BUSINESS
ADMINISTRATION

COURSE CODE: MBA 807

COURSE TITLE: MANAGEMENT ACCOUNTING

DATE: 08/08/2018 TIME: 2.00 P.M – 4.00 P.M

INSTRUCTIONS TO CANDIDATES

Answer Question ONE (compulsory) and ANY OTHER TWO questions

SECTION A (COMPULSORY)

QUESTION ONE

a) Kabete Enterprises Ltd has two divisions Masaa and Gin. Masaa division manufactures an intermediate product for which there is no external market. Gin division incorporates the intermediate product into a final product, which it sells. One unit of the intermediate product is used in the production of the final product. The expected units of the final product which Gin division estimates it can sell at various selling prices are as follows:

	Net selling Price	Quantity sold
	Sh.	Units
	100	1000
	90	2000
	80	3000
	70	4000
60	5000	
50	6000	

The variable and fixed costs of each division are as follows:

	Masaa	Gin
	Sh.	Sh.
Variable cost per unit	11	7
Fixed cost per annum	60,000	90,000

The transfer price is Sh.35 for the intermediate product, and is determined on a full cost-plus basis.

Required:

- i). Profit statements for each division and the company as a whole for the various selling prices. (12 marks)
- ii). Which selling prices maximize the profits of Gin division and the company as a whole? Comment on why the selling price (which is selected by the company) is not selected by Gin division. (3 Marks)
- iii). It has been argued that full cost is an inappropriate basis for setting transfer prices. Outline the objections which can be raised against this basis. (3 marks)

b) The success of an organization in cost control and cost reduction depends largely on the installation of an ideal cost accounting system which identifies, classifies and record all the costs accurately and promptly.

Required

- i). With reference to the above statement, explain four conditions for an effective costing system (8 Marks)
- c) Distinguish between Kaizen and Business Process Re-engineering (4 Marks)

SECTION B (CHOOSE ANY THREE QUESTIONS)

QUESTION TWO

Little Company Ltd wishes to set flexible budgets for each of its operating departments. The management wishes to obtain better cost estimates to evaluate the company's operations more effectively. The following information is provided for analysis;

Year 2004	Equivalent Production	Overheads
Month	Units ('000')	Sh.'000'
January	1,425	12,185
February	950	9,875
March	1,130	10,450
April	1,690	15,280
May	1,006	9,915
June	834	9,150
July	982	10,133
August	1,259	11,981
September	1,385	12,045
October	1,420	13,180
November	1,125	11,910
December	980	10,431

Additional Information:

1. In November, the opening work in progress inventory contained 1,000,000 units that were 65% complete with respect to conversion costs
2. During the same month of November, manufacturing department transferred 1,500,000 units
3. The closing inventory for the month of November was 1,200,000 units and the units were 30% complete with respect to conversion costs

Required

- i). Use the high-low method to estimate the overhead cost function (4 Marks)
- ii). Determine the cost estimation equation using regression method (10 Marks)
- iii). Using the regression function formulated in (ii) above estimate the overhead costs for the month of November (2 Marks)
- iv). Briefly explain any two limitations of High-low method of cost estimation that may be overcome by using regression analysis (4 Marks)

QUESTION THREE

- a) Highlight four limitations of cost-volume-profit analysis (4 Marks)
- b) Sifa Ltd manufactures and sells a single product. The following information regarding the company for the year ended 31 October 2015 is provided:

	Sh '000'
Sales	15,000
Direct Materials	3,250
Direct Labour	2,700
Variable Overheads	3,500
Selling and Distribution Expenses	
Variable	1,300

Fixed	989.5
Administrative Expenses	1,050

The following changes are expected to occur during the year ending 31 October 2015

1. Variable selling and distribution expenses will reduce by 5% due to increased efficiency of the sales staff
2. Variable overhead will increase by 3%
3. Labour cost will reduce by 4%
4. Material Cost will increase by 2% due to inflation
5. Selling price will reduce by 3% in order to attract customers
6. No stock is expected at the end of period

Required

- i). Expected break even sales for the year ending 31 October 2015 (6 Marks)
- ii). Expected margin of safety in sales value for the year ending 31 October 2015 (3 Marks)
- iii). Expected Sales value at which a profit of sh. 2,250,000 will be realized (3 Marks)
- iv). A summary of the operating statement to show net profit in (iii) above (4 Marks)

QUESTION FOUR

- a) Discuss four benefits that would accrue to an organization that operates a standard costing system (8 Marks)
- b) XYZ Ltd. Produces a product branded "Zec.". The company operates a standard costing system. The budgeted product information for the month of October 2011 was as follows:

	Shs
Selling Price per Unit	160
Cost per Unit	
Material:	
A: (6 kilogrammes at Sh.15 per kilogrammes)	90
B: (4 kilogrammes at Sh.3 per kilogrammes)	12
Labour: (5 hours at Sh. 9 per hour)	45
Budgeted production (units)	20,000

Addition information:

1. Budgeted fixed overhead amounted to Sh.90, 000 per month and are not absorbed into the product.
2. The actual data for the month of October 2011 were as follows:

Actual Output	19,000 units
Selling Price per unit	Sh.150
Materials used:	
A: 98,000 kilogrammes (total cost Sh.1,249,500)	
B: 50,000 kilogrammes (total cost Sh. 145,000)	
Labour cost Sh.10 per hour (total cost Sh.700,000)	
Fixed Overhead incurred were Sh.86,000	

Required:

Prepare an operating statement which reconciles budgeted and actual profits using variance analysis approach (12 Marks)

QUESTION FIVE

Wanga Ltd. was formed ten years ago to provide business equipment solutions to local business. It has separate divisions for research, marketing, product design, technology and communication services, and now manufactures and supplies a wide range of business equipment. To date the company has evaluated its performance using monthly financial reports that analyze profitability by type of equipment. The managing director of Wanga Ltd. has recently returned from a course in which it has been suggested that the "Balanced Scorecard" could be a useful way of measuring performance.

Required:

- a) Explain the "Balanced Scorecard" and how it could be used by Wanga Ltd. to measure its performance. (10 marks)
- b) The managing director of Wanga Ltd. also overheard someone mention how the performance of their company had improved after they introduced "Benchmarking." Explain "Benchmarking" and how it could be used to improve the performance of Wanga Ltd. (10 marks)