(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2021/2022 ACADEMIC YEAR

FIRST YEAR SECOND SEMESTER

MAIN EXAMS

FOR THE DEGREEOF MASTER OF BUSINESS ADMINISTRATION

COURSE CODE:MBA807

COURSE TITLE:**MANAGEMENT ACCOUNTTING**

DATE: 3RD JUNE,2022 **TIME:** 9.00AM - 12 NOON

INSTRUCTIONS TO CANDIDATES

1. Answer Question One in Section A and Any other THREE (3) Questions in Section B

2. Question **one** carries **40**marks and each of the other THREE questions carry **20** marks each

TIME: 3 Hours

SECTION A

QUESTION ONE

a) The success of an organization in cost control and cost reduction depends largely on the installation of an ideal cost accounting system that identifies, classifies and records all costs accurately and promptly. Required: With reference to the above statement explain four conditions for an effective costing system (8 Marks)

b) 'It may be argued that in a total quality environment, variance analysis from a standard costing system is redundant.' Discuss the validity of this statement. (10 Marks)

c) Kazuri Furniture manufactures a single product branded "sofa". The following were the budgeted costs at different levels of output for the year ended 31st December 2021:

Outputs(Units)	30,000	30,000	30,000
	Shs.	Shs.	Shs.
Materials	900,000	990,000	1,080,000
Wages	750,000	825,000	900,000
Depreciation	240,000	240,000	240,000
Power	510,000	540,000	570,000
Salaries	510,000	510,000	510,000
2,910,000	2,910,000	3,105,000	3,300,000

Required: i). A flexible budget for the year ended 31st December 2013, if the actual production for the year was 34,800 (12 Marks)

d) Evaluate five benefits that may accrue to an organization that adopts target costing principles (10 Marks)

(Total 20Marks)

SECTION B

QUESTION TWO

a) Understanding cost behavior patterns is important in making financial planning and cost control decisions Required: i). In relation to the above statement, describe three ways in which costs might be classified according to behavior (6 Marks)

b) Afya Bora Health Centre has a capacity of 20 beds. The following information related to the center's operation for the year ended 30 June 2021:

	Shs.
Repairs and Maintenance(Fixed)	150,000
Rent per Month	225,000
Food supplied to patients(Variable)	1,080,000
Landry charges(Variable)	540,000
Medicines(Variable)	900,000
Other Expenses(Fixed)	1,080,000
Salaries per month: Supervisors	30,000
: Nurses	30,000
:Ward Assistants	15,000

Additional Information:

1) The health center operated for 300 days during the year. For 200 days, the bed occupancy accounted for 100% while the rest of the period accounted for 80% occupancy.

2) The health center engaged external doctors to attend to the patients at an average fee of Sh.300,000 per month. The doctors' fees were paid on the basis of the number of patients attended by them.

3) During the year, 2 supervisors, 4 nurses, and 2 ward assistants were engaged throughout.

4) Profit is loaded at a margin of 50%

Required: i). Charge per day per patient (8 Marks)

ii). Number of patient days required to break even (6 Marks)

(Total 20Marks)

QUESTION THREE

Sanders Ltd is a manufacturing company producing two joint products P1 and P2 in the ratio of 3:1 at the split-off point. The two products are taken to the mixing plant for blending and refining after the split off point. The following information is also provided:

	Product P1	**Product P2**
Sales volume (litres	300,000	100,000
Selling price per litre	Sh.3,500	Sh.7,000
Joint process costs*	Sh.300,000,000	Sh.100,000,000
Blending and refining costs	Sh.250,000,000	Sh.250,000,000
Other separable costs (all variable) *	Sh.50,000,000	Sh.20,000,000

Joint costs are apportioned on the basis of volume

The joint process costs are 70% fixed and 30% variable whereas the mixing plant costs are 30% fixed and 70% variable. There are only 5000 hours available in the mixing plant. Usually 4000 hours are taken in processing of Product P1 and P2, 2000 hours for each product while the remaining 1000 hours are used for other work that generates a contribution of Sh.100,000 per hour.

The company is now planning to change the production mix of the joint process to 3:2 for product P1 and P2 respectively. This change will result in an increase in the joint cost by Sh.500 for each additional litre of P2 produced.

Required:

a) Advise the company on whether to change the production mix. (14 marks)

b) Explain other qualitative factors that are important to consider before changing the production mix. (6 marks)

(Total 20Marks)

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)

(Total 20Marks)

QUESTION FIVE

Kaner Enterprises Ltd has two divisions Mega and Guwahati. Mega division manufactures an intermediate product for which there is no external market. Guwahati 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 Guwahati 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:

	Mega	**Guwahati**
	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 Guwahati division and the company as a whole? Comment on why the selling price (which is selected by the company) is not selected by Guwahati division. (5 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)

(Total 20Marks)