MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY

P.O. Box 972-60200 – Meru-Kenya.
Tel: +254(0) 799 529 958, +254(0) 799 529 959, +254 (0)712 524 293
Website: www.must.ac.ke Email: info@mucst.ac.ke

UNIVERSITY EXAMINATIONS 2024/2025

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR DEGREE OF BACHELOR OF COMMERCE AND BACHELOR OF EDUCATION

BFC 3425: MANAGEMENT ACCOUNTING

DATE: JANUARY 2025 **TIME: 2 HOURS**

INSTRUCTIONS: Answer Question ONE and any other TWO questions.

QUESTION ONE (30 MARKS)

a) ln an effort to reduce cost, the B.O.D. have decided to do away with management accounting function. They have fronted an argument to the effect that management accounting function is a duplication of the financial accounting function. The C.E.O. has a different opinion and has asked for your expert opinion in order to make a convincing report to be tabled at the next board meeting.

Required:

Prepare a precise but a convincing report detailing the role of management accounting in an organization and its importance to the management (15marks)

b) To enhance performance, efficiency and optimize utilization of organisation resources, budgetary control process should be carried out periodically. Explain this statement. (10 marks)

c) Njuguh Ltd are planning on the next production period. The cost of the last 10 production periods are as follows:

Quantity	Cost sh. '000'
100	600
120	650
126	680
130	700

190	750
200	780
230	850
250	890
270	900
280	1100

Required:

Computer the cost function using:

i. Least Square Method (8 marks)

ii. Estimate the cost if in the eleventh production period it is expected that there will be 310 units (2Marks)

iii. What are the limitation of cost estimation (5marks)

QUESTION TWO (20 MARKS)

Molu traders has been manufacturing and selling three products in Garrisa town. The market demand for the products on average has been as follows:

Product	**Annual demand Units**
Beta	20,000
Ched	25,000
Dilo	48,000

The manufacture of the products requires time on a machine as follows:

Product	**Time required**
Beta	30 minutes
Ched	45 minutes
Dilo	20 minutes

The following details are available for each of the products:

	Beta	Ched	Dilo
	Sh	Sh	Sh
Direct materials	15	12	14
Direct labour	25	20	23
Variable overheads	5	3	6
Fixed overheads	7	5	8
Profit per unit	8	8	8
Selling price	60	48	59

Due to the prevailing drought and power rationing, the company can only manage to get a maximum of 30,000 hours on the machine per year.

Required:

a) Rank the products in order of priority if there is a limitation of the machine hours. (10 marks)

b) Advise the management on the most profitable product mix. (5 marks)

c) In decision making, some information is relevant while other information is irrelevant. Explain what kind of information is relevant (5 marks)

QUESTION THREE (20 MARKS)

a) Explain weaknesses of break-even theory. (6 marks)

b) Jimco Ltd manufactures and sells a single product. The following information regarding the company's operations for the year ended 30 September 2014 was presented to you.

Profit and loss account for the year ended 30 September 2014

		Sh'000'	Sh'000'
Sales			30,000
Less:	Production costs		
	Direct material	6,500	
	Direct labour	5,400	
	Production overhead variable	7 000	

Prime costs		18 900
		11,100
Other expenses:		
Selling — Variable	2,600	
- Cost	1,997	
Administration	2 100	6 697
Net profit		4 403

The following changes are expected to occur during the year ending 30 September 2015:

1. Selling price will be adjusted downward by 3% in order to attract more customers.
2. Material prices will rise by 2% due to inflation.
3. There will be a reduction in labour cost of 4%.
4. Production overheads will increase by 3%.
5. Increase in the efficiency of sales persons will reduce direct selling costs by 5%.

All other factors are expected to remain constant.

Required:

a) Break-even point in sales value (4 marks)

b) The margin of safety in sales value (2 marks)

c) The sales value at which profit of Sh 4.5 million will be achieved (2 marks)

d) A summary operating statement that shows the net profit of Sh 4.5 million in (c) above. (6 marks)

QUESTION FOUR (20 MARKS)

Furaha Ltd. is a manufacturing company which produces and sells a single product "Rhaul".

Cost	Shs.
Variable manufacturing	45
Fixed manufacturing	35
Variable selling and administration	8
Fixed selling and administration	30
	118

Fixed manufacturing costs per unit are based on a predetermined rate established at a normal activity level of 18,000 production units per period. Fixed selling and administration costs are absorbed into the cost of sales at 20% of the selling price.

Under/over recovery of overheads are transferred to the profit and loss account at the end of each period.

The following information has been provided for two consecutive periods:

	Period 1	Period 2
Sales: (units)	17,000	18,000
Value	Sh 2,550,000	Sh 2,700,000
Variable manufacturing costs	Sh 720,000	Sh 828,000
Variable selling and administration costs	Sh 136,000	Sh 144,000
Fixed manufacturing costs	Sh 640,000	Sh 630,000
Fixed selling and administration costs	Sh 540,000	Sh 540,000
Production (units)	16,000	18,400

Required:

a) Income statements for period 1 under the full costing method. (5 marks)

b) Income statements for period 1 under the direct costing method. (5 marks)

c) Reconciliation for each period of the profit/loss obtained under the two methods in (a) and (b) above (4 marks)

d) Outline three arguments in favour of

   i. The full costing method (3 marks)

   ii. The direct costing method (3 marks)

QUESTION FIVE(20MARKS)

Lamu Ltd produces a popular brand of biscuits which sells under the brand name "Tamu". The biscuits are sold in packets of 100 grammes at Sh 20 each. To reduce the distribution costs, the firm is only selling its products through the supermarkets at Sh 12 per packet. The budgeted standards for the year ended 31 December 2001 are given below:

Annual fixed manufacturing costs	Sh 560,000
Direct materials per packet	Sh 2.50
Direct labour cost per hour	Sh200.00
Variable factory overheads per hour	Sh275.00
Selling costs per unit (variable)	Sh 9.80

Output: Number of packets per hour	100
Number of working hours per week	40

At the end of the year, an analysis of the results revealed the following:

1. The actual selling price was Sh 12.75 per unit.
2. Direct material costs per packet reduced by 5%,
3. The actual production rate was 98 packets per hour, although there was no idle time.
4. All units produced were sold.
5. Actual fixed costs were Sh 480,000.
6. There was no change in the selling and distribution cost per unit.
7. Actual variable overheads amounted to Sh 550,000.

Required:

a) The original (static) budgeted income statement for the year (6 marks)

b) Actual income statement to the year (6 marks)

c) The flexed budgeted income statement for the year (8 marks)

QUESTION SIX (20MARKS)

Africa Apple ltd are manufacturers of high end telecommunication devices. The current operating level is 400,000 tablets annually but full capacity is 550,000. The tablets normally sell for $1,500 per tablet. Manufacturing cost data of 400,000 tablets is as shown below:

Manufacturing costs	**$'000'**	**$'000'**
Variable costs	300,000	
Fixed costs	187 500	487,500
Selling and administration costs		
Variable (freight and commissions) costs	30,000	
Fixed costs	60 000	90 000
		577,500

A vendor offers to buy 100,000 tablets for export at $1,125 per tablet. 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 $1,125 is well below the manufacturing cost per unit.

Required:

a) Should the offer be accepted? (7 marks)

b) What factors should be considered before accepting the order? (3 marks)

c) Discuss accounting as an information system and also the various users it serves (10 marks)