KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

FIRST SEMESTER EXAMINATION FOR THE DEGREE OF

MASTER OF BUSINESS ADMINISTRATION

BAC 814: MANAGEMENT ACCOUNTING

DATE: Monday, 20th November 2017 **TIME:** 2.00 p.m. - 5.00 p.m.

INSTRUCTIONS:

1. ANSWER **ALL** QUESTIONS.
2. Marks are indicated per question.

Q1. (a) The two broad functions of a management accountant are planning and controlling the operations of an organization. Having been appointed the position of management accountant outline the seven key points at which you expect to perform. (7 marks)

(b) One of the limitations of management accounting is that it is "top bottom heavy". Explain. (5 marks)

(c) Discuss the comparison between financial and management accounting. (13 marks)

Q2. (a) Itemize and describe the five common characteristics of process for operating costing though details of activities vary from one concern to another. (5 marks)

(b) Data relating to three joint products are as follows:

Product	**A**	**B**	**C**
Sales (Sh)	12,000	18,000	15,000
Selling expenses	3,500	4,500	1,000
Weight (kilograms)	180	240	150
Join costs	Sh. 35,000		

INVOLVEMENT IN ANY EXAMINATION IRREGULARITY SHALL LEAD TO DISCONTINUATION

You are required to calculate the profit made by each product, apportioning joint costs on the basis of:

(i) Sales value (10 marks)

(ii) Physical units (10 marks)

Q3. (a) The contribution principle may be used in certain industries to aid pricing decisions. With suitable examples show when this can be appropriate. (8 marks)

(b) Alexis Plc has a capacity to make 12,000 units of a product. For a subsequent period the company provides this budget.

	Sh.	**Sh.**	**Sh.**
Sales (10,000 units @ sh. 10			100,000
Raw materials	30,000		
Wages	10,000		
Overheads	4,000	44,000	
Other Fixed Costs		20,000	
Salesman's commission (Direct to sales)		7,500	
Depreciation to machines		18,000	(90,000)
Profit			10,000

It is possible to sell the surplus 2,000 units capable of being produced for Sh. 5 each as reported by the salesmen having just toured a new market. The sales considers the company could reduce its selling price by 10% and sell all in the home market, although an advertising campaign costing Sh. 2,000 would be required.

Required:

Evaluate these proposals and make recommendation on the best option. (17 marks)

Q4. (a) Describe four behavioural aspects which should be taken into account by those involved in designing and operating standard costing and budgetary control systems. (6 marks)

(b) Farmshop Limited was preparing a budget for the quarter ending 30th September, 2017. Stock on hand at the close of June was Sh. 72,000 while the balance at bank was Sh. 10,000. Because of pressure on liquid resources the director directed that levels for each month be reduced to an amount sufficient to cover the following two months' sales. Purchases are paid by end of the month following. The amount payable for June purchases was Sh. 36,000.

Budgeted sales which yield a gross profit of $33\frac{1}{3}\%$ on cost were:

	Sh.
July	40,000
August	42,000
September	46,000
October	48,000
November	52,000
December	44,000

10% of sales is cash and of the credit sales $\frac{2}{3}$ is payable in the month after sales and the balance the following month. Credit sales in May was Sh. 24,000 and June, Sh. 26,100. The annual rental for offices is Sh. 18,000 payable monthly. Other payments made are:

Month	July Sh.	August Sh.	September Sh.
Salaries, commission and wages	4,800	5,100	5,500
Rates	800		
Other expenses	1,600	1,800	2,000

Required:

Prepare cash budget showing the balance at the end of July, August and September. (19 marks)