KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

DIGITAL SCHOOL OF VIRTUAL AND OPEN LEARNING

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

BAC 403: MANAGEMENT ACCOUNTING II

DATE: Thursday 21st June 2018 **TIME: 8.00a.m -10.00a.m**

INSTRUCTIONS:

1. **Answer all questions.**
2. **Show all your workings.**
3. **Marks allocated are shown at the end of each question**

QUESTION ONE

The financial controller of Monica Industries Ltd. has determined the major activities involved in the preparation of the annual financial statements. These activities are shown below:

	Activity	Duration (in weeks)	Immediately preceding activity
A:	Check outstanding purchase invoices	2	_____
B:	Close each cash book and post to general ledger	2	_____
C:	Complete sales invoices	3	_____
D:	Check accrued salaries and wages	1	_____
E:	Count and verify stock levels	4	_____
F:	Calculate stock valuation	2	E
G:	Close purchase ledger and post general ledger	1	A
H:	Close sales ledger and post to general ledger	1	C

I:	Post salaries and wages to general ledger	1	D
J:	Close general ledger	3	B, G, H, I
K:	Prepare trial balance	3	J
L:	Apply closing adjustment and trial balance	2	F, K
M:	Re-open general ledger for new period	1	N
N:	Prepare final accounts	6	L
O:	Submit final accounts to board for approval	1	N

Required:

a) Draw a network to represent the inter-relationship between the above activities and insert the latest event times throughout. [6 marks]

b) Assuming that preparation of the account starts at the beginning of the first week in January, calculate the earliest date the final accounts can be presented to the board. [4 marks]

c) The end of week 13 is the end of the financial year and the Board has indicated that the final accounts must have been approved by that time. The financial controller has suggested that to achieve this, activities A, B and C can all be completed by the end of December and also that the verification of stocks levels, E, could be done in only two weeks of additional labour available.

d) Explain how management may use network systems in the design of multi-stage production process. [4 marks]

[Total: 20 marks]

QUESTION TWO

Marashi Company Ltd. is a merchandising company selling a 40ml bottle of perfume in four zones within Kenya. The variable cost per bottle is Sh.70 but the selling price is different in each of the four zones. The difference in selling price is due to the transportation costs involved. The company has four salesmen available for an assignment in the four zones. The zones are not equally good in their sales potential. It is estimated that a typical salesman operating in each zone would bring the following annual sales:

Zone	Mt. Kenya	Western	Nyanza	Eastern
Annual sales in bottles	60,000	50,000	40,000	30,000
Selling price per bottle	100	110	130	120

The four salesmen also differ in their marketing ability. It is estimated that, working under the same conditions, the yearly sales would be proportionately shares as follows:

Salesman:	Kariuki	Wafula	Oketch	Wambua
	6	5	5	4

The objective of Marachi Company Ltd. is to maximize contribution from each zone.

Required:

a) Determine how the four salesmen can be assigned to the zones in order for the company to maximize the total contribution. [15 marks]

b) Calculate the total contribution of the company after the assignment. [5 marks]

QUESTION THREE

Makazi Ltd. Manufactures a hedge-trimming tool which has been selling at Shs. 1,600 per uit for a number of years. The selling price is to be reviewed and the following information is available and the likely demand:

1. The standard variable cost of manufacturing the tool is Shs. 1,000 per unit and an analysis of the cost variances in the past 20 months show the following pattern which the production manager expects to continue in the future.
    - Adverse variances of 10% of the standard variables cost occurred in ten of the twenty moths.
    - Nil variances of six of the twenty months
    - Favourable variances of 5% of the standard variable cost occurred in four of the twenty moths.
2. Fixed costs have been Shs. 400 per unit at an average sales level of 20,000 units, but are expected to rise in the future.

3. The following estimates at the two proposed selling prices being considered are as follows:

	Shs.	Probability
Optimistic estimate	8,200,000	0.3
Most likely estimate	8,500,000	0.5
Pessimistic estimate	9,000,000	0.2

4. The demand estimates at the two proposed selling prices being considered are as follows:

Proposes selling price	Shs. 1,700	Shs. 1,800	
	No. of units demanded	No. of units demanded	Probability
Optimistic estimate	21,000	19,000	0.2
Most likely estimate	19,000	17,000	0.5
Pessimistic estimate	16,000	15,500	0.3

Assume that all the estimates and probabilities are independent.

Required:

i) Based on the information given above, advise the management of Makazi Ltd. on whether they should change the selling price. Indicate the price you would recommend. [6 marks]

ii) The expected profit at the price you have recommended in (i) above and the resulting margin of safety expressed as a percentage of expected sales. [4 marks]

iii) Comment on the method of analysis you have used to deal with the probabilities given in the question. [2 marks]

iv) Explain briefly how the use of a computer program would improve your analysis. [3 marks]

QUESTION FOUR

a) Transfer pricing of product between processes in a manufacturing company can be done at:

   i) Cost or

   ii) Sales value at the point of transfer.

Required:

a) Discuss how each of the above methods could be used effectively in the operations of a responsibility accounting system. [8 marks]

b) Shadow prices may be used in the setting of the transfer prices between divisions in a company, where the intermediate products being transferred are short supply.

Required:

Explain why the transfer prices thus calculated are more likely to be favoured by the management of the divisions supplying the intermediate products rather than the management of the divisions receiving the intermediate products. [7 marks]