



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

DACC & DBA

BAC 2210: MANAGEMENT ACCOUNTING II

END OF SEMESTER EXAMINATION

SERIES:AUGUST2019

TIME:2HOURS

DATE:Pick Date Aug2019

Instructions to Candidates

You should have the following for this examination

-Answer Booklet, examination pass and student ID

This paper consists of **FIVE** questions. Attempt question ONE (Compulsory) and any other TWO questions.

Do not write on the question paper.

Question ONE

- (a) Discuss the main functions of budgets. (12 marks)
- (b) Standard costs may be used in both absorption and in marginal costing systems. Performance standards are used to set efficiency targets. There are four types: ideal, attainable, current and basic.

Required:

Explain each type of standard mentioned above. (8 marks)

- (c) Barbados Ltd has prepared the following standard cost information for one unit of product Zeta.

Direct materials	4 Kg. @ sh.10/Kg	Sh.40
Direct Labour	2 hours @ sh.4/hour	Sh.8
Fixed overheads	3 hours @ sh.2.50	Sh.7.50

The fixed overheads are based on a budgeted expenditure of sh.75,000 and budgeted activity of 30,000 hours.

Actual results for the period were recorded as follows:

Production	9,000 units
Materials – 33,600 Kg	Sh.336,000
Labour – 16,500 hours	Sh.68,500
Fixed overheads	Sh.70,000

Required:

Determine the following:

- (i) The direct material price and usage variances. (4 marks)
 - (ii) The direct labour rate and efficiency variances. (4 marks)
 - (iii) The total fixed production overhead variance. (2 marks)
- (Total = 30 marks)**

Question TWO

Mulani Co. Ltd manufactures and sells a product that has seasonal variations in demand, with peak sales coming in the third quarter. The following information concerns operations for year 2 – the coming year – and for the first two quarters of year 3.

- a. The company’s single product sells for sh.800 per unit. Budgeted sales in units for the next six quarters are as follows:

	<u>Year 2 Quarter</u>				<u>Year 3 Quarter</u>	
	1	2	3	4	1	2
Budgeted sales in units	40,000	60,000	100,000	50,000	70,000	80,000

- b. Sales are collected in the following pattern: 75% in the quarter the sales are made, and the remaining 25% in the following quarter. On January 1, Year 2, the company’s balance sheet is expected to show sh.6,500,000 in accounts receivable, all of which will be collected in the first quarter of the year. Bad debts are negligible and they can be ignored.
- c. The company desires an ending inventory of finished units on hand at the end of each quarter equal to 30% of the budgeted sales for the next quarter. On December 31, Year 1, the company had 12,000 units on hand.
- d. 5 Kg of raw materials are required to complete one unit of product. The company requires an ending inventory of raw materials on hand at the end of each quarter equal to 10% of the production needs of the following quarter.
On December 31, Year 1, the company had 23,000 Kg of raw materials on hand.
- e. The raw materials costs sh.80 per Kg. Purchases of raw materials are paid for in the following patterns: 60% paid in the quarter the purchases are made, and the remaining 40% paid in the following quarter. On January 1, Year 2, the company’s balance sheet showed sh.8,150,000 in accounts payable for raw material purchases, all of which will be paid for in the first quarter of the year.

Required:

Prepare the following budgeted and schedules for the year, showing both quarterly and total figures:

- (i) A sales budget and a schedule of expected cash collections. (8 marks)
- (ii) A production budget. (4 marks)

- (iii) A direct materials purchases budget and a schedule of expected cash payments for material purchases. (8 marks)

(Total = 20 marks)

Question THREE

- (a) What is meant by the term responsibility accounting? (10 marks)

- (b) Wamba Co. Ltd has two divisions, A and B, whose respective performances are under review.
Division A is currently earning a profit of sh.35million and has net assets of sh.150million.
Division B currently earns a profit of sh.70 million with net assets of sh.325million.

Wamba Co. Ltd. has a current cost of capital of 15%.

Required:

- (i) Using the information above, calculate the return on investment (ROI) and residual income (RI) figures for the two divisions under review and comment on your results. (5 marks)
- (ii) State which method of performance evaluation (i.e return on investment or residual income) would be more useful when comparing divisional performance and why. (5 marks)

(Total=20 marks)

Question FOUR

Don Yale, the CEO of Hardrock Concrete Company, has plants in 3 locations and is currently working on 3 major construction projects, located at different sites. The transportation cost per truckload of concrete, plant capacities, and project requirements are provided in the accompanying table.

TO \ FROM	PROJECT A	PROJECT B	PROJECT C	PLANT CAPACITY
PLANT 1	Sh.1000	Sh.400	Sh.1100	70
PLANT 2	Sh.1200	Sh.500	Sh.800	50
PLANT 3	Sh.900	Sh.700	Sh.600	30
PROJECT REQUIREMENTS	40	50	60	150

Required:

- (a) Formulate an initial feasible solution to Hardrock's transportation problem using the northwest corner rule. Then evaluate each unused shipping route by computing all improvement indices by applying the stepping-stone method. Is this solution optimal? Why? (20 marks)
- (b) Is there more than one optimal solution to this problem? Why. (20 marks)

Question FIVE

- (a) What is meant by the term transfer price, and why are transfer prices needed? (8 marks)

- (b) The transfer pricing system operated by a divisional company has the potential to make a significant contribution towards the achievement of corporate financial objectives.

Required:

Explain the potential benefits of operating a transfer pricing system within a divisionalised company.

(12 marks)

(Total = 20 marks)