**TECHNICAL UNIVERSITY OF MOMBASA**
**SCHOOL OF BUSINESS**
DEPARTMENT OF ACCOUNTING AND FINANCE
**UNIVERSITY EXAMINATION FOR:**
BACHELOR OF BUSINESS ADMINISTRATION
BACHELOR OF COMMERCE

**BAC 4407: ISSUES IN MANAGEMENT ACCOUNTING**
**END OF SEMESTER EXAMINATION**

**SERIES:** APRIL 2022 **TIME:** 2 HOURS

**INSTRUCTION: ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS.**

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**QUESTION 1 (COMPULSORY)**

**(a)** A newly formed company has drawn up the following budgets for its first two accounting periods:

| | **Period 1** | **Period 2** |
|---|---|---|
| Sales units | **9,500** | **10,300** |
| Production units (equivalent to normal capacity) | **10,000** | **10,000** |

The following budgeted information applies to both periods:

| | Sh. |
|---|---|
| Selling price | 640 |
| Variable cost per unit | 360 |
| Fixed production overhead per period | 1,500,000 |

Required;

(i) Determine the budgeted profit under both marginal costing and absorption costing. (5 marks)

(ii) In period 2, everything was as budgeted, except for the fixed production overhead, which was sh. 1,570,000. Determine the profit using absorption costing in period 2. (5 marks)

(b) What are the fundamental differences between a traditional costing system and an ABC system? (10 marks)

(c) The following details relate to three services offered by DSF Ltd:

| | V | A | L |
|---|---|---|---|
| | Sh per service | Sh per service | Sh per service |
| Selling price of service | 120 | 170 | 176 |
| Direct labour | 20 | 30 | 20 |
| Variable overhead | 40 | 56 | 80 |
| Fixed overhead | 20 | 32 | 40 |
| Total cost | 80 | 118 | 140 |
| Profit | 40 | 52 | 36 |

All three services use the same direct labour, but in different quantities.

In a period when labour used on these services is in short supply, determine the most and least profitable use of the labour using the contribution per sh. of labour analysis. (10marks)

**(Total marks 30)**

**QUESTION 2**

(a) What factors led to the emergence of ABC systems? (8marks)

(b) CJD Ltd manufactures plastic components for the car industry. The following budgeted information is available for three of their key plastic components:

| | W<br>Sh per unit | X<br>Sh per unit | Y<br>Sh per unit |
|---|---|---|---|
| Selling price | 200 | 183 | 175 |
| Direct material | 50 | 40 | 35 |
| Direct labour | 30 | 35 | 30 |
| Units produced and sold | 10,000 | 15,000 | 18,000 |

The total number of activities for each of the three products for the period is as follows:

| | W | X | Y |
|---|---|---|---|
| Number of purchase requisition | 1200 | 1800 | 2000 |
| Number of set-ups | 240 | 260 | 300 |

Overhead costs have been analyzed as follows:

| | Sh. |
|---|---|
| Receiving/inspecting quality assurance | 1,400,000 |
| Production scheduling/machine set-up | 1,200,000 |

Required;

Calculate the budgeted profit per unit for each of the three products using activity-based budgeting.

(12 marks)

QUESTION 3

The following details have been extracted from Kwale Ltd's budget:

| | |
|---|---|
| Selling price per unit | sh. 140 |
| Variable production costs per unit | sh. 45 |
| Fixed production costs per unit | sh. 32 |

The budgeted fixed production cost per unit was based on a normal capacity of 11,000 units per month.

Actual details for the months of January and February are given below:

| | January | February |
|---|---|---|
| Production | 10,000 | 11,500 |
| Sales volume (units) | 9,800 | 11,200 |
| Selling price per unit | sh. 135 | Sh. 140 |
| Variable production cost per unit | Sh. 45 | Sh. 45 |
| Total fixed production costs | Sh. 350,000 | Sh. 340,000 |

There was no closing inventory at the end of December:

Required;

(a) Calculate the acual profit for January and February using absorption costing. You should assume that any under-/over absorption of fixed overheads is debited/credited to the income statement each month. (12 marks)

(b) Calculate the actual profit for the month of January only using marginal costing.(4 marks)

(c) Explain, using appropriate calculations, why there is a difference between the actual profit figures for January using marginal costing and absorption costing. ( 4marks)

(**Total 20 marks)**

**QUESTION 4**

(a) The concept of throughput accounting has been developed from the theory of constraints (TOC) as an alternative system of cost and management accounting in a Just-in-time (JIT) environment.

Required;

Discuss three concepts that form the basis of throughput accounting in a JIT environment. (6marks)

(b) Comcraft Ltd produces three products, X, Y and Z. The capacity of Comcraft Ltd's plant is restricted by process alpha. Process alpha is expected to be operational for 8 hours per day and can produce 1,200 units of X per hour, 1,500 units of Y per hour and 600 units of Z per hour.

Selling prices and material costs for each product are as follows:

| Product | Selling price Per unit | Material Cost per unit | Throughput Contribution per unit |
|---|---|---|---|
| | Sh | Sh | Sh |
| X | 150 | 80 | 70 |
| Y | 120 | 40 | 80 |
| Z | 300 | 100 | 200 |

Conversion costs are sh. 720,000 per day.

Required;

(1) Calculate the profit per day if daily output achieved is 6,000 units of X, 4,500 units of Y and 1,200 units of Z. (4marks)

(2) Calculate the TA ratio for each product. (5marks)

(3) In the absence of demand restrictions for the three products, advise Comcraft's management on the optimal production plan. (5marks)

(Total = 20 marks)

QUESTION 5

Explain the term "Benchmarking" and indicate how it could be used to improve the performance of an organization. (20 marks)