



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: DECEMBER 2024

TIME: 2 HOURS

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

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**Question ONE (Compulsory)**

- a) When opening inventories were 8,500 units and closing inventories 6,750 units, a firm had a profit of sh.6,210,000 using marginal costing.

Assuming that the fixed overhead absorption rate was sh.300 per unit, what would be the profit using absorption costing? (6 marks)

- b) What are the features of organizations that would find ABC particularly useful for product costing? (6 marks)

- c) The budgeted and actual data for River Products Co. Ltd. for the year to 31 March 20X5 are as follows:

	<b>Budgeted</b>	<b>Actual</b>
Direct labour hours	9,000	9,900
Direct wages	Sh.34,000	Sh.35,500
Machine hours	10,100	9,750
Direct materials	Sh.55,000	Sh.53,900
Units produced	120,000	122,970
Overheads	Sh.63,000	Sh.61,500

The cost accountant of River Products Co. has decided that overheads should be absorbed on the basis of labour hours.

**Required:**

Calculate the amount of under- or over-absorbed overheads for River Products Co. for the year to 31 March 20X5. (6 marks)

d) Discuss briefly the following terms:

- (i) Total quality management (1½ marks)
  - (ii) Benchmarking (1½ marks)
  - (iii) Just-in-time systems (1½ marks)
  - (iv) Backflush Accounting. (1½ marks)
- (Total=6 marks)

e) Soweto Plc has two divisions, A and B, whose respective performances are under review. Division A is currently earning a profit of Sh.350 million and has net assets of sh.1.5 billion.

Division B currently earns a profit of sh.700 million with net assets of sh.3.25 billion. The company has a current cost of capital of 15%.

**Required:**

- (a) Using the information above, calculate the return on investment and residual income figures for the two divisions under review and comment on your results. (6 marks)

**(Total=30 marks)**

**Question TWO**

Tana Company produces and sells a single product, Leather Jackets. Selected cost and operating data relating to the product for two years are given below:

Selling price per unit		Sh.50
<u>Manufacturing Costs:</u>		
Variable cost per unit produced:		
Direct Materials		Sh.11
Direct Labour		Sh.6
Variable overheads		Sh.3
Fixed Cost per year		Sh.120,000
<u>Selling and administrative costs:</u>		
Variable Cost per units sold		Sh.5
Fixed per year		Sh.70,000

	Year 1	Year 2
Units in beginning Inventory	0	2,000

Units produced during the year	10,000	6,000
Units sold during the year	8,000	8,000
Units in ending inventory	2,000	0

**Required:**

1. Assume that the company uses absorption costing.
    - (a) Compute the unit product cost in each year. (2 marks)
    - (b) Prepare an income statement for each year. (6 marks)
  2. Assume that the company uses marginal costing.
    - (a) Compute the unit product cost in each year. (2marks)
    - (b) Prepare an income statement for each year. (6 marks)
  3. Reconcile the marginal costing and absorption costing net profits. (4marks)
- (Total 20 marks)**

**Question THREE**

Discuss the balanced scorecard by highlighting its four perspectives. **(20 marks)**

**Question FOUR**

Lamu Co. operates an activity based costing system and has forecast the following information for next year:

Cost Pool	Cost	Cost Driver	No. of Drivers
Production Set-ups	Sh.105,000	Set-up	300
Product testing	Sh.300,000	Tests	1,500
Component Supply and storage	Sh.25,000	Component Orders	500
Customer orders and delivery	Sh.112,500	Customer Orders	1,000

General fixed overheads such as lighting and heating, which cannot be linked to any specific activity are expected to be sh.900,000 and these overheads are absorbed on a direct labour hour basis. Total direct labour hours for next year are expected to be 300,000 hours.

Lamu Co. expects orders for Product ZT3 next year to be 100 orders of 60 units per order and 60 orders of 50 units per order. The company holds no stocks of Product ZT3

and will need to produce the order requirement in production runs of 900 units. One order for components is placed prior to each production run. Four tests are made during each production run to ensure that quality standards are maintained. The following additional cost and profit information relates to product ZT3:

Component Cost:	Sh.1.00 per unit
Direct Labour:	10 minutes per unit at sh.7.80 per hour
Profit mark-up:	40% of total unit cost

**Required:**

- (a) Calculate the activity-based recovery rates for each cost pool. (4 marks)
  - (b) Calculate the total unit cost and selling price of product ZT3. (8 marks)
  - (c) Discuss the reasons why activity-based costing may be preferred to traditional absorption costing in the modern manufacturing environment. (8 marks)
- (Total=20 marks)**

**Question FIVE**

- (a) What is meant by the term Decentralization? (4 marks)
- (b) Distinguish between a cost centre, a profit centre, and an investment centre. (4 marks)
- (c) The magnetic Imaging Division of Medical Diagnostic Corporation, has reported the following results for last year's operations.

Sales	Sh.250 million
Net operating income	30 million
Average operating assets	100 million

**Required:**

- (i) Compute the margin, turnover, and ROI for the Magnetic Imaging Division. (6 marks)
  - (ii) Top management of Medical Diagnostics Corporation has set a minimum required rate of return on average operating assets of 25%. What is the Magnetic Imaging Division's residual income for the year? (6 marks)
- (Total =20 marks)**