MACHAKOS UNIVERSITY

University Examinations for 2017/2018 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARMENT OF BUSINESS ADMINISTRATION

FIRST YEAR SECOND SEMESTER EXAMINATION FOR MASTER OF BUSINESS ADMINISTRATION

BAC 815: MANAGEMENT ACCOUNTING

DATE: 13/12 /2017 **TIME: 11.00-2.00 PM**

INSTRUCTIONS

Answer question one and any other two questions

QUESTION ONE (COMPULSORY) (30 MARKS)

(a) A Kenyan university is concerned about the cost of part time teaching in the university. The Dean has asked you to do a work study job in one of the campuses where you were provided with the following cost information:

Total cost of instruction	Kshs. 10,000,000
Student population:	
Full time students	2,500
Part time students	600

Evening students take 60% of the classes of full time students during the year.

REQUIRED

I. Compute the number of full time equivalent students per year (6 marks)

II. Determine the cost of instructions at the campus per full-time equivalent student. (6 marks)

III. Assuming the University marks up instructions cost by Kshs. 500, recommend to the Dean the cost per course to be paid by the students. (4 marks)

(b) Describe the factors one should consider before implementing the Just In Time processing (JIT) (9 marks)

QUESTION TWO (25 MARKS)

In the month of May, 2017 NewDays SPA in Katalonia serviced 570 clients at an average price of Kshs. 1,500. During the month, fixed costs were Kshs. 21,000 and variable costs were 65% of sales.

REQUIRED:

a) Determine NewDays operating income in the month of May 2017. (6 marks)

b) What's the number of clients Newsdays should serve to break-even (4 marks)

c) NewsDays has just discovered a new location where demand is higher than Katalonia. To tap this market NewDays would have to spend an extra Kshs. 7,000 per month. The outfit intends to raise the money from existing business. How many more SPA clients would NewDays have to serve to raise money for the location? (9 marks)

d) Distinguish between a standard and a budget. (6 marks)

QUESTION THREE (25 MARKS)

Send IT Company manufactures and sells golf balls. The following cost data are available at end year December, 2015. The company had no beginning stock. In 2015, 400,000 balls were produced, but only 350,000 were sold. The balls are sold at Kshs. 50 per ball. Costs and expenses in the year were as follows:

Variable costs per unit	**Kshs.**
Direct Materials	10
Direct labour	5
Var. overheads	8
Var. Selling & Administration	2
Annual fixed costs & expenses:	
Manufacturing Overheads	500,000
Selling & Administration	100,000

REQUIRED

(a) Compute the manufacturing cost of one golf ball as per the Generally Accepted Accounting Principles (4 marks)

(b) Prepare a 2015 Income Statement for Send IT Company comparing absorption and variable costing approaches. (12 marks)

(c) Shemeji is a registered COMESA supplier and is considering buying a photocopier machine for his new outlet near the Busia campus. He follows COMESA standards of screening potential investments using payback period and accounting rate of return method. The standards are: An investment must have a payback of less than four years; be depreciated at straight-line; and have a minimum of 7% accounting rate of return to be considered for further analysis. Machine data is as follows:

Cost of Machine	Kshs 48,000
Est. residual value	0
Est. annual net cash flows (each year for 5 yrs)	13,000
Est useful life	5 years

REQUIRED

i. Compute the photocopy machine's payback period (3 marks)

ii. Compute the machines accounting rate of return (3 marks)

iii. Make a recommendation to Shemeji if he should turn down the investment proposal or consider it further (3 marks)

QUESTION FOUR (25 MARKS)

(a) Q Mart Company manufactures seats for baby bicycles and uses ABC costing system. The company cost allocation rates are as follows:

Activity	**Allocation base**	**Activity cost rate (Kshs.)**
Machining	No. of Machine hours	30 per hr
Assembling	No. of parts	0.80 per part
Packaging	No. of finished seats	1.20 per seat

Q Mart has been asked to bid for a tender by Kirinyanga County to assemble 50,000 seats to be installed for the free Kindergarten bicycles. Each seat has 20 parts and the direct materials per seat is Kshs. 11. The job would require 10,000 direct labor hours at a labor rate of Kshs. 25 per hour. In addition, Q Marts will use a total of 400 Machine hours to fabricate some of the parts required for the seats.

REQUIRED:

i. Compute the total cost of production and packaging 50,000 baby seats. What's the average cost of a baby seat? (8 marks)

ii. Suppose for bidding purposes Q Mart adds a 30% mark up to total cost. Q Mart competitors use traditional costing system and allocate Manufacturing overheads based on direct labor hours at a rate of Kshs. 65 per hour. Baby seat manufacturing in Kenya is standardized. Advise Q Mart if they should bid for the tender. (8 marks)

(b) Explain the difference between a flexible and a static budget. Which type of budget is used to evaluate performance and why? (9 marks)

QUESTION FIVE (25 MARKS)

(a) Gamble Company Manufactures cement using job-order costing. The company applies overhead costs to job on the basis of machine hours worked. For the month the company estimated machine hours is 60,000 and uses Kshs. 360,000 manufacturing overheads. In May, 2017 the company's transactions were as follows:

i. Raw materials were purchased on account , Kshs. 400,000

ii. Raw materials were issued for use in cement production; Kshs. 300,000 (Kshs. 280,000 direct materials, and Kshs. 20,000 indirect materials)

iii. The following costs were incurred for employees services: Direct labour, Kshs. 70,000; Indirect labour, Kshs. 100,000; Sales commission, Kshs. 80,000; and Administrative salaries, Kshs, 200,000

iv. The company worked 60,000 machine hours in the month to manufacture goods costing Kshs. 900,000

v. Depreciation for the month, Kshs. 350,000 ((80% relates to factory overheads, and 20% relates to depreciation expense)

vi. Goods were sold on account to customers during the month for a total of Kshs. 1.5 million. The goods cost 60% of sales to manufacture according of their job cost sheets.

REQUIRED:

1. Prepare journal entries to record preceding transactions. (8 marks)
2. Post the entries to T accounts (6 marks)
3. Prepare an income statement for the month (11 marks)