MACHAKOS UNIVERSITY

University Examinations for 2016/2017 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCES

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR DEGREE IN

BACHELOR OF COMMERCE

BAC 403: MANAGEMENT ACCOUNTING II

DATE: 30/5/2017 **TIME: 11:00 – 1:00 PM**

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

a) "Management accounting is part of managerial function".
Using four fundamental management pillars justify the above statement (6 marks)

b) Transfer between processes in a manufacturing firm can be made based on appropriate transfer pricing method. State and describe clearly the suitability of any three transfer pricing methods. (6 marks)

c) "Standard costs are set under predetermined conditions to measure efficiency through control of such costs". Using an example in each case, describe four ways in which you would use standard costs to evaluate performance and make decisions in a manufacturing business. (6 marks)

d) Wema manufacturer produces two products, product M and product S. The following are related details:

	Product M	**Product S**
Selling price	42	33
Direct material	15	15
Labour hours (sh.50 per hour)	18 hours	9 hours

Variable overheads 50% of direct wages.

The industry is experiencing labour shortage, the manufacturer wishes to produce more of one product.

Required:
i) Show which product you would recommend for production (4 marks)
ii) Explain your answer (2 marks)

e) Variance analysis involves computation of individual variances and determination of their causes. Describe the importance of establishing controllable variances stating its role in decision making. (6 marks)

QUESTION TWO (20 MARKS)
Mambo Yote factory employs three types of workers who perform different jobs in their factory. The standard and actual labour components engaged during the month of January, 2017 are as follows.

	Skilled	**semi-skilled**	**unskilled**
i) Standard number of workers in a group	30	10	10
ii) Actual number of workers engaged in the group in January 2017	24	15	12
iii) Standard wage rate (sh.Per hour)	20	12	8
iv)Actual wage rate (sh.per hour) in January 2017	24	10	8 .

The month of January 2017 had 200 working hours but the group managed to work for a total of 9 600 hours.

Calculate:
i) labour cost variance (6 marks)
ii) labour rate variance (4 marks)
iii) labour efficiency variance (4 marks)
iv) labour mix variance (4 marks)
v) labour idle time variance (2 marks)

QUESTION THREE (30 MARKS)
Rao manufacturing company makes machine fitting nuts which have been sold in the market at a price a sh.16 for the last five years. The management is planning to review the price; the following information on costs and likely demand was availed

Standard variable cost is sh.10 per unit.
The production manager has made an analysis of cost variances for the last 20 months which show the following pattern and for which the manager expects to continue:

Nil variances occurred in six of the months
Favorable variances of -5% of standard variable costs occurred in four of the months

Adverse variances of +10% of standard variable costs in ten of the months.

Fixed costs have been sh.4 per unit on average of sales of 20 000 units but are expected to rise in future thus the following future estimates have been made for the total fixed cost.

Estimate	**probability**	**shs.**
Most likely	0.5	85 000
Pessimistic	0 2	90 000
Optimistic	0.3	82 000

The demand estimates for the two new prices to be considered:

Estimated selling prices	sh**.17**	**sh. 18**
Most likely (probability.0.5)	19 000 units	17 500 units
Pessimistic (probability 0.3)	16 500 units	15 500 units
Optimistic (probability 0.2)	21 000 units	19 000 units

All estimates and probabilities are independent.

Required:

a) Advice the management.
Should the price be changed? If yes Recommend your price. (show the appropriate calculations) (6 marks)

b) What is the expected profit at your recommended price? Specify the margin of safety as a percentage sales. (6 marks)

c) Comment on the viability of the analysis you have made using probabilities. (4 marks)

d) Describe two other methods that can be used by the management to expand its margin of safety. (4 marks)

QUESTION FOUR (20 MARKS)

a) The following information relates to Pema manufacturers for the year ended 31st December 2016.

Actual amounts for the year

Direct material cost	sh.20 per unit
Variable manufacturing cost	sh 15 per unit
Selling price per unit	sh 50 per unit
Fixed cost	sh 2. 5 million per year

Plant capacity is 200 000 units per year, current utilization is 50%.

Due to the prevailing market conditions, it is not possible to improve the current plant utilization. The management aims at making a profit of sh.5 per unit in the year 2017.

The following proposals have been made:

i)Spend sh 300 000 on sales promotion and increase the selling price by 10%
ii) Reduce selling price by 10%

Required:

Advice the management on the viable option (10 marks)

b) Bella limited produces and sells a single product. At the beginning of third financial year, there was no opening stock for the product. The fixed costs were sh 2000 per trading period, the variable production cost sh.4 and the selling price was sh.6 per unit.

The following details are also available:

	Year I (units)	**Year 2(units)**
Production	1 500	1 500
Sales	1 200	1 800

The company wishes to establish the amount of profit realized.
Assume normal output is 1 500 units:

Calculate the profit under
i) Absorption costing. (4 marks)
ii) Marginal costing (4 marks)

Which method would you recommend ? Why? (2 marks)

QUESTION FIVE (20 MARKS)

Smart textiles factory specializes in cutting, joinery and finishing garment services. The factory is divided into three divisions that provide services to each other and also to external clients. The performance of the divisional managers is set by the central management and measured against the set profit targets.

During the month of March 2016 the finishing division secured a job for Fancy Jeans at a fee of sh.15 500.The finishing division would incur a cost of sh.2 600 excluding the joinery portion, which would take the joinery division 200 hours to complete the job. The finishing division could outsource the joinery services but the factory's joinery division had 200 hours chargeable skill hours available in March 2016.

The budgeted costs of the joinery division for the year ending 31 December 2016 is categorized in 12 equal monthly periods as follows;

	Shs
Fixed costs	240 000
Variable costs	
Skilled labour (6000 hours)	120 000
Semi- skilled labour	96 000
Other processing costs	60 000

The above costs are recovered based on chargeable skilled labour hours(hours spend in joinery) budgeted to be 90% of skilled labour hours worked. The external policy is to add a 40% mark up to its total budgeted cost per chargeable hour.

During the month of March 2016, actual labour cost incurred by the joinery division were 10% higher than expected, but other costs were 5% lower than expected.

Required:

a) **C**alculate the total transfer value that would have been charged by the joinery division to the finishing division for the 200 hours worked on its Fancy Jeans job ,using the following bases:

i) Market price (2 marks)

ii) Actual variable cost (3 marks)

iii) Standard variable cost plus 40% markup (3 marks)

b) Prepare statements using the above alternative values to reflect in the performance measurement of the joinery and finishing departments. (12 marks)