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UNIVERSITY EXAMINATIONS 2023/2024

FOURTH YEAR, SECOND SEMESTER EXAMINATION FOR THE DEGREE OF
BACHELOR OF PURCHASING AND SUPPLIES MANAGEMENT

BFC 3380: MANAGEMENT ACCOUNTING

DATE: APRIL 2024

TIME: 2 HOURS

INSTRUCTIONS: Answer Question ONE and any other TWO questions.

QUESTION ONE (30 MARKS)

- a) Outline the relevance of Management Accounting to the management in performing the managerial functions. (10 Marks)
- b) Bissy Mwalo intends to open a retail shop on 1 April 2024, with Ksh 170,000 in cash. Transactions for the first three months are expected to be as follows:
- Pay quarterly rent of Ksh 15,000 in advance
 - Buy shop furniture at Ksh 6,000 on 1 April
 - Employ a shop attendant at Ksh 7,000 per month
 - Credit purchases:

| | |
|-------|------------|
| April | Ksh 30,000 |
| Ma | Ksh 43,000 |
| June | Ksh 56,000 |



MUST is ISO 9001:2015 and



ISO/IEC 27001:2013 CERTIFIED

One month credit is given by suppliers

v. Cash Sales

| | |
|-------|------------|
| April | Ksh 25,000 |
| May | Ksh 49,000 |
| June | Ksh 98,000 |

- vi. General expenses of sh. 14,000 will be paid every month
- vii. Stock as at 30 June, 2024 is expected to be sh.41,600
- viii. Part of the premises will be sublet for sh.3,000 per month
- ix. Furniture will be depreciated at 10% per annum on cost.
- x. Mwalo will withdraw sh.9,000 every month for personal use.

Required:

- xi. A cash budget for the months of April, May and June, 2024. (10 Marks)
- xii. A profit and loss account forecast for the quarter ending 30 June, 2024. (10 Marks)

QUESTION TWO (20 MARKS)

The following records have been obtained from the books of King Pin Ltd, a firm dealing with computer repairs and maintenance:

| Week | Number of computers purchased | Total cost (Sh) |
|------|-------------------------------|-----------------|
| 1 | 310 | 23,200 |
| 2 | 200 | 19,500 |
| 3 | 600 | 23,600 |
| 4 | 480 | 20,220 |
| 5 | 460 | 23,600 |
| 6 | 440 | 18,480 |
| 7 | 420 | 16,200 |
| 8 | 330 | 20,200 |



- a) Draw a Scatter graph and deduce the line of best fit. (6 Marks)
- b) Using the Range method, determine the cost of purchasing 480 computers for week 9. (6 Marks)
- c) Using the Least Squares method, estimate the output to be attained at the cost of sh 28,000 at week 10. (8 Marks)

QUESTION THREE (20 MARKS)

- a) Citing a firm with which you are familiar, explain how standards are developed in standard costing. (2 Marks)
- b) Describe at least three types of standards. (3 Marks)
- c) Maridadi Ltd, an exclusive cosmetics business, manufactures a popular perfume, known as Jasho; which it sells in bottles, through its retail shop for Shs2000. During the latest quarter ended 30 June 2022, the company budgeted to make a profit of Shs875,000 before deducting fixed overheads amounting to Shs400,000. The standard cost per bottle is shown below;

| | Shs |
|-----------------------------------|-------------|
| Material — 10 kg@Shs50 per kg | 500 |
| Labour — 10 hours@Shs 60 per hour | 600 |
| Variable factory overheads | 200 |
| Marginal cost per bottle | 1300 |
| Fixed factory overheads | 320 |
| Total cost per bottle | <u>1620</u> |

Factory overhead costs (variable and fixed) are absorbed into products on the basis of direct labour hours.

Actual results for the quarter were as follows:

| | Shs |
|------------------------------------|-----------|
| Sales — 1100 bottles | 2,365,000 |
| <u>Costs</u> | |
| Raw material (1400 kg) | 784,000 |
| Labour (15000 clock hours) | 997,500 |
| Variable factory overhead incurred | 320,800 |
| Fixed factory overhead incurred | 441,700 |



Production in the quarter amounted to 1300 units. Out of the total materials purchased, 2000 kg were still in stock. There were no opening balances of raw materials or finished goods stocks. It is the policy of the company to value all stocks at standard cost.

Required:

Calculate the following variances indicating clearly whether they are favourable (F) or adverse (A):

- i. Material price and usage (3 Marks)
- ii. Labour rate and efficiency (3 Marks)
- iii. Variable factory overhead over or under absorbed (3 Marks)
- iv. Fixed factory overhead over or under absorbed (3 Marks)
- v. Sales price and sales margin quantity (3 Marks)

QUESTION FOUR (20 MARKS)

- a) Citing relevant examples, differentiate between joint products and by-products. (4 Marks)

Lenga Juu Ltd produces three products X, Y and Z in a single product. For the month of September 2022, the following budgeted figures were available:

| | |
|---------------------|---------------------|
| Raw materials input | 24000kg @ sh 300/kg |
| Labour | 9000 Hrs @ sh 90/Hr |
| Variable overheads | 900 Hrs @ sh 450/hr |

Additional info:

1. Fixed overheads were absorbed at 50% of labour cost.
2. There was a normal loss of 10% of material input and no abnormal loss. The normal loss was scrapped at sh 20/kg which was credited to the process.
3. X, Y and Z were produced in the ratio of 5:3:2 respectively.
4. There was neither opening nor closing work-in-progress.
5. The products were sold as follows:



| Product | Selling Price per Kg (sh) |
|---------|---------------------------|
| X | 120 |
| Y | 80 |
| Z | 80 |

Required: Apportion the common costs to the joint products X, Y and Z using:

- i. Relative weight of output method (5 Marks)
- ii. Sales value method (5 Marks)

Hint: Give your answers to the nearest whole numbers.

B) On further processing, products X, Y and Z were converted to product A, B and C respectively. The selling prices per kg were sh 225, sh 180 and sh 150 for products A, B and C respectively. The further processing costs the company sh 20 per kg of material input. In addition, the normal loss was 10% of material input with no sales value.

Required:

An income statement on further processing showing profit or loss for each product. (6 Marks)

QUESTION FIVE (20 MARKS)

- a) Discuss two challenges associated with installing a Management Accounting system in a firm. (2 Marks)
- b) Waps Ltd manufacturers three products namely: A, B and C. The management is reviewing the profit of the product. You are given the following budgeted data relating to the company for the coming year:

| | Product A | Product B | Product C |
|------------------------|------------|------------|------------|
| | Sh'000 | Sh'000 | Sh'000 |
| Sales | 2,000 | 5,000 | 3,000 |
| Cost of sales | 900 | 2700 | 1,500 |
| Selling costs | 300 | 900 | 450 |
| Fixed expenses: | | | |
| Overheads | 360 | 900 | 540 |
| Administration | <u>160</u> | <u>200</u> | <u>240</u> |



| | | | |
|-------------------|------------|-----------|------------|
| Income before tax | 280 | 100 | 270 |
| Tax @ 30% | <u>84</u> | <u>30</u> | <u>81</u> |
| Net Income | <u>196</u> | <u>70</u> | <u>189</u> |

All products are manufactured in the same facility under common administration control. Fixed expenses are allocated to the products in proportion to the volume of budgeted sales.

Required:

- i. The budgeted break even point for each product and for the company as a whole.
- ii. If the sales by value of B is reduced by half and that of A and C increased each by a quarter of sales by value of B, what would be the effect on the budgeted income of Waps Ltd?
- iii. What would be the effect of the shift in the product mix suggested in (ii) above on the break even point of the whole company?

