



# MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY

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## University Examinations 2023/2024

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF  
BACHELOR OF COMMERCE

**BFC 3478: CONTEMPORARY ISSUES IN MANAGEMENT ACCOUNTING**

DATE: APRIL 2024

TIME: 2 HOURS

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INSTRUCTIONS: Answer question *one* and any other *two* questions

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### QUESTION ONE (30 MARKS)

- a) Discuss various requirements that are necessary for responsibility accounting to be implemented (10 marks)
- b) Jakom is the controller at Muga ltd, a car dealership. She recently hired Karimi as a book keeper. Karimi wanted to attend a class on excel spreadsheet, so Jakom temporarily took over Karimi's duties, including overseeing a fund for topping off cars fuel tank before a test drive. Jakom found a shortage in this fund and confronted Karimi when he returned to work. He admitted that he occasionally uses this fund to pay for his own petrol. Jakom estimated that the amount involved is around Ksh30,000 Required:
- i) What should Nkirote do (4 marks)
- Explain various threats to ethical code (6 marks)
- c) Fosin ltd is considering replacing its unkempt staircases with modern intelligent escalators (lifts). The escalators are smart, intelligent and comfortable and more efficient

than the staircases, however they have a shorter life. The company uses the straight line method of depreciation. Revenue from the escalators (2.2M per year) is expected to be affected by the replacement decision. Summary data on existing staircases and the replacement escalators are shown below in sh.

	Existing stairs	New escalator
Original cost	2,000,000	1,200,000
Useful life (years)	10	4
Current age (yrs)	6	0
Accumulated depreciation	1,200,000	Nil
Current disposal price	80,000	Not acquired
Terminal disposal price (2 years from now)	0	0
Annual operating costs	1,600,000	920,000

What factors would you consider in order to replace the staircases or not (10 marks)

### QUESTION TWO (20 MARKS)

- a) You are currently offered an engagement as a management accountant for bidii ltd, a company that makes compact discs and LP records. The following data is provided about the two products.

	Compact discs	Records
Monthly production	15,000	5,000
Direct material costs		
Pressing dept	Ksh 5.00	Ksh 6.00
Cutting dept	5.00	Ksh 7.00

Direct labour costs	Ksh	Ksh 13.00	Ksh 2.00	Ksh 15.00
Machine hours	5.00	Ksh 5.00		Ksh 7.00
Pressing dept	Ksh	0.6		0.5
Cutting dept	3.00	0.6		0.5
Packing dept		0.5		0.3

In addition, the following overheads are incurred: basis of apportionment

	Ksh	
Production department overheads		
Pressing dept	25,000	
Cutting dept	30,000	
Packing dept	16,000	
Service department overheads		
Purchasing	7,000	Direct material costs
Production control	5,000	Direct material costs
Set-up costs	12,000	Direct material costs
Maintenance	3,000	Machine hours
Quality control	4,000	Machine hours

The company wishes to introduce a pricing system which is 20% mark-up on marginal costs

**Required:**

Calculate the price it should charge for compact discs and records (10 marks)

b) Write explanatory notes on the following accounting system

- i. Back flash accounting (5 marks)
- ii. Throughput accounting system (5 marks)

**QUESTION THREE (20 MARKS)**

- a) Smart Ltd has two factories. East and West, both of which produce product EW 90. West occupies a company-owned freehold factory; the East factory is leased. The lease for the East factory is now due for renewal and if the proposed terms are accepted; the rental will increase by Ksh15,000 per annum. The Company's head office costs are allocated to factories on the basis of sales value. The following sales and costs apply to the budgeted results for the year before the rental increase.

	West	East	Head office	Total
Sales (units)	30,000	20,000	-	50,000
	Ksh	Ksh	Ksh	Ksh
Sales	600,000	400,000	-	1,000,000
Variable costs				
Materials	120,000	80,000	-	200,000
Direct wages	180,000	110,000	-	290,000
Variables manufacturing overheads	60,000	30,000	-	90,000
	360,000	220,000	-	580,000
Fixed costs				
Rent	-	40,000	5,000	45,000
Depreciation	60,000	20,000	10,000	90,000
Other fixed overheads	70,000	60,000	65,000	195,000
Total costs	490,000	340,000	80,000	910,000

If the lease of the East factory is not renewed, the production facilities at the West factory can be expanded to cover the loss of production from East. To produce the additional output,

new plant and equipment will be required which will cost Ksh200.000. The additional plant would be depreciated over a five-year period on the straight-line basis with no residual value anticipated. The purchase would be financed by a loan, bearing interest at 10% per annum. Additional selling and distribution costs of Ksh0.20 per unit sold will be incurred on sales made to customers at present in the territory covered by East.

The expansion of the West factory would cause its fixed costs to rise by 40%. Head office costs would not be affected. Variable manufacturing costs would be based on the present unit costs incurred by West. Receipts from the sale of plant and equipment would cover closure costs of the East factory.

**Required:**

- (a) Give calculations to show which alternative would be more profitable. (12 marks)
- (b) Show the return on the additional investment if all manufacturing is carried out at the West factory. (8 marks)

**QUESTION FOUR (20 MARKS)**

a) In this rapidly changing world, managerial accounting must continue to innovate in order to provide managers with the information they need. However, the managers may focus too enthusiastically on the latest innovation, to the detriment of other areas of the business.

**Required:**

Discuss how the use of a balanced scorecard correct this limited perspective (12 marks)

b)

1. A choice has to be made between three mutually exclusive projects requiring an initial cash outlay of sh50,000 each and are expected to generate net cash flows shown below. The present value factor is 15%.

Year	Project A	Project B	Project C
1	25,000	10,000	10,000
2	15,000	12,000	30,000
3	10,000	18,000	45,000

4	Nil	25,000	65,000
5	12,000	8,000	45,000
6	6,000	4,000	25,000

Compute the NPV and profitability index of each project

(12 marks)