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University Examinations 2024/2025

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR
OF BUSINESS ADMINISTRATION

BFC 3425: COST AND MANAGEMENT ACCOUNTING II

DATE: JANUARY 2025

TIME: 2 HOURS

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

QUESTION ONE (30 MARKS)

- a) Outline FIVE advantages of installing Management Accounting system (5 Marks).
- b) Discuss brief history of management accounting. (6 marks).
- c) Explain the relevance of management accounting in planning, controlling and decision making functions of management. (6 marks).
- d) Mr Mwanamwali intends to open a retail shop on 1 April 2024, with Ksh 1000,000 in cash. Transactions for the first three months are expected to be as follows:
 - i. Pay quarterly rent of Ksh 15,000 in advance
 - ii. Buy shop furniture at Ksh 6,000 on 1 April
 - iii. Employ a shop attendant at Ksh 7,000 per month
 - iv. Credit purchases:

April	Ksh 30,000
May	Ksh 43,000

June Ksh 56,000

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. Mwanamwali will withdraw sh.9,000 every month for personal use.

Required:

xi. A cash budget for the months of April, May and June, 2024. (7 marks)

xii. A profit and loss account forecast for the quarter ending 30 June, 2024.

(7 marks)

QUESTION TWO (20 MARKS)

a) Citing a firm with which you are familiar, explain how standards are developed in standard costing. (4 marks)

b) Describe three types of standards and recommend one that ought to be adopted by management for performance measurement (6 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	<u>200</u>
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
Costs	
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 (4 marks)
- ii. Labour rate and efficiency (4 marks)

- iii. Variable factory overhead over or under absorbed (2 marks)

QUESTION THREE (20 MARKS)

- a) Discuss four limitations of management accounting. (4 marks)
- b) The following details were extracted from Farmers Limited, a manufacturing company for the year ended 31st December 2023

Hours	Maintenance Cost (Shs)
90	1500
150	1950
60	900
30	900
180	2700
150	2250
120	1950
180	2100
90	1350
30	1050
120	1800
60	1350

Required:

- a) Draw up a visual diagram and deduce the line of best fit. (5 marks).
- b) Using High Low method, determine the cost of maintaining 230 hours. (4 marks)
- c) Determine the company's cost of maintaining 200 hours using the least square method. (4 marks)
- d) Determine the coefficient of determination and interpret the results thereof. (3 marks)

QUESTION FOUR (20 MARKS)

- a) Citing a firm with which you are familiar, explain the relevance of Responsibility Accounting, challenges associated with the same and solutions thereof. (6 marks)
- b) Maringo Ltd manufactures four products namely: SL, TL, UL and VL. The products are produced in a joint process where 20000 kgs of raw material are acquired at a total cost of sh. 12 million. The following information for the month of March 2023 is availed to you:

- 1. The joint labour cost incurred during the month of March 2023 amounted to sh.11840000.
- 2. Normal loss is estimated at 20% of raw materials input.
- 3. The output for products SL, TL, UL and VL was in the ratio of4:5:5:2 respectively.
- 4. During the month, no abnormal loss was reported.
- 5. The following products were subjected to further processes as follows:

Product	SL	TL	UL
Process	2	3	4
Process Cost (sh000)	2,510	2987.5	2237.5

- 6. The selling price of each product is as follows:

Product	SL	TL	UL	VL
Selling Price (sh)	3000	6920	5520	2000

Required:

Analyze the financial performance of each product using the following methods of joint cost allocation:

- i) Physical Measures (3marks)
- ii) Sales Value (3marks)
- iii) Net Realizable Value (3marks)

Management accountants should behave ethically. They have an obligation to follow the highest standards of ethical responsibility and maintain good professional

image. The Institute of Management Accountants (IMA) has developed standards of ethical conduct for management accountants and financial managers.

Required

Discuss four ethical issues that may arise in a business environment and how such issues can be addressed. (5 marks)

QUESTION FIVE (20 MARKS)

- a) Discuss three methods commonly used in Transfer Pricing. (3 marks).
- b) Racket sports Ltd produces a variety of rackets for the sports industry. It makes rackets for tennis, squash and badminton. The table below presents the relevant data for the products produced:

Rackets sports data:

Product	Selling price Sh.	Variable cost Per unit-Sh	Total sales %age
Tennis	4000	1000	50
Squash	2500	1500	40
Badminton	2500	1500	10

Annual fixed costs- Shs. 200,000

Production capacity- Shs. 1,000,000 of total sales

Required:

- i. Determine the contribution percentage on each shilling of sales for each of the products produced and sold. (6 marks)
- ii. Compute the break-even point for the firm in value and in units. (4 marks)
- iii. Determine the profit if the plant operates at 85% capacity. (4 marks)
- iv. The management intends to incur an additional cost of shs. 50,000 so as to alter the sales mix to 4:3:3 respectively, sales value remaining constant. Is the move desirable? (3 marks)