



(University of Choice)

**MASINDE MULIRO UNIVERSITY OF
SCIENCE AND TECHNOLOGY
(MMUST)**

MAIN / BUNGOMA / WEBUYE / NAIROBI CAMPUS

**UNIVERSITY EXAMINATIONS
2021 / 2022 ACADEMIC YEAR**

THIRD YEAR SPECIAL / SUPPLEMENTARY EXAMINATIONS

**FOR THE DEGREE
OF
BACHELOR OF COMMERCE**

COURSE CODE: BCA 365

COURSE TITLE: MANAGEMENT ACCOUNTING

DATE: TEUSDAY, 2ND AUGUST 2022

TIME: 2-4

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE AND ANY OTHER TWO (2) QUESTIONS

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

QUESTION ONE (30 marks)

- a) Explain three functions of management accounting (6 Marks)
- b) Identify and discuss briefly five limitations of cost-volume-profit analysis. (10 marks)
- c) An organization produces and sells three products, Basic, Medium and Super. The products are sold in the proportions 2:1:3 respectively. The organization’s fixed costs are Ksh800,000 per month and details of the products are as follows.

Product	Selling price	Variable cost
	Ksh per unit	Ksh per unit
Basic	220	160
Medium	150	190
Super	190	130

The organization desires to earn a profit after tax of Ksh. 364, 000 next month. Calculate the required sales value of each product in order to achieve this target profit. (14 marks)

QUESTION TWO

A company must decide periodically how to expand its operations to meet its growth objectives. Currently, it must decide whether to install new equipment, to schedule over time or to hire new employees. A thorough investigation of the facts surrounding the problem yielded the following probabilities for the alternatives: 0.3, 0.4 and 0.2 respectively. Further for each alternative, the probability of a sale rise next year is 0.5 and the probability of a sales decline next year is 0.5. If there is a sales rise next year, the expected profits are Sh 300 000 for installing new equipment, however the profits are only Sh 150 000 for the same period if sales drop, similar values for scheduling over time, or hiring new workers are as follows: expected profits of Sh 350 000 and Sh 390 000 respectively for a sales rise next year and expected profits of Sh 180 000 and Sh 200 000 respectively for a sales drop next year.

Required:

- i) Based on this data, develop an appropriate decision tree and solve for the action that maximizes expected profit (12 Marks)
- ii) Explain any four alternative transfer pricing methods (8 Marks)

QUESTION THREE (20 MARKS)

BEMIX Ltd has been asked to quote a price for a one-off contract. The company’s management has asked for your advice on the relevant costs for the contract. The following information is available:

Materials:

The contract requires 3,000 kg of material K, which is a material used regularly by the company in other production. The company has 2,000 kg of material K currently in stock which had been purchased last month for a total cost of Sh 19,600. Since then the price per kilogram for material

K has increased by 5%. The contract also requires 200 kg of material L. There are 250 kg of material L in stock which are not required for normal production. This material originally cost a total of Sh 3,125. If not used on this contract, the stock of material L would be sold for Sh. 11 per kg.

Labor

The contract requires 800 hours of skilled labor. Skilled labor is paid Sh. 9.50 per hour. There is a shortage of skilled labor and all the available skilled labor is fully employed by the company in the manufacture of product P. The following information relates to product P.

	Sh per unit	Sh per unit
Selling price		100
Less		
Skilled labour	38	
Other variable costs	22	<u>(60)</u>
		<u>40</u>

Required

a) Calculate the total relevant costs for making a decision about the contract in respect of the following cost elements:

- (i) Materials K and L; and
- (ii) Skilled labor.

(12 marks)

b) Explain how you would decide which overhead costs would be relevant in the financial appraisal of the contract.

(8 marks)

QUESTION FOUR (20 MARKS)

a) Explain the following variances:

1. The total labor variance;
2. The wage rate variance;
3. The labor efficiency variance;
4. The total materials variance;
5. The materials price variance;
6. The materials usage variance.

(9 marks)

(b) In what circumstances is a favorable labor variance and a favorable materials variance not always desirable?

(5 marks)

(c) Briefly explain the main type of standards that a firm can set.

(6 marks)