JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY (JOOUST)

4TH YEAR 1ST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION WITH IT

(REGULAR -MAIN)

COURSE CODE: ABA 404

COURSE TITLE: MANAGEMENT ACCOUNTING I

DATE: **TIME:**

DURATION:

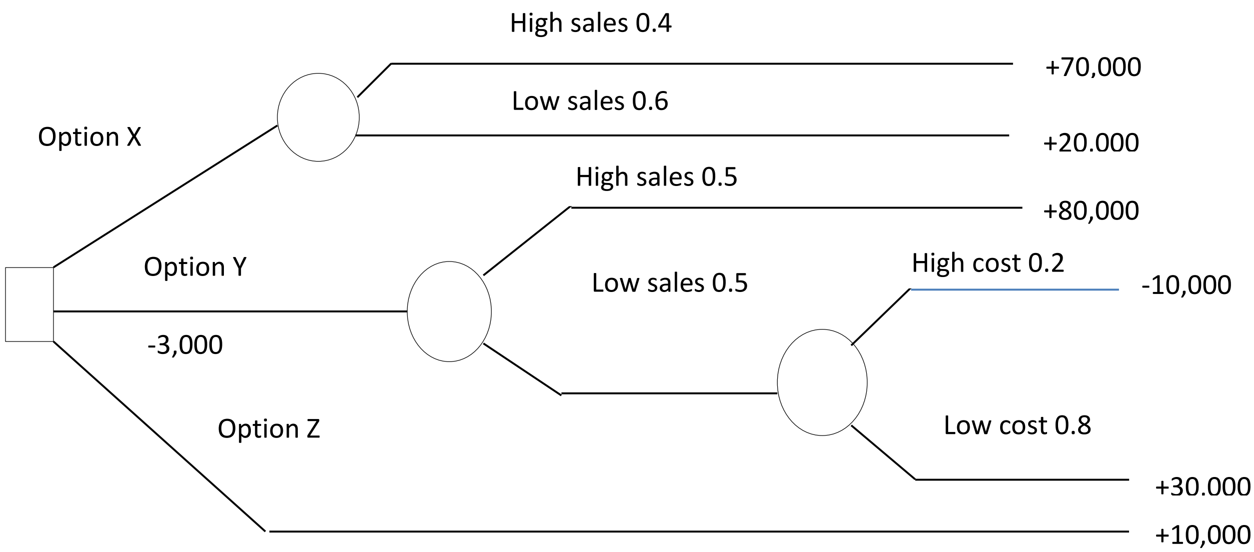
INSTRUCTIONS

1. **This paper contains FIVE(5) questions**
2. **Answer QUESTION 1 and ANY other TWO questions.**
3. **Write all answers in the booklet provided.**

QUESTION ONE (COMPULSORY)

a) State five major differences between management accounting and financial accounting. **(10 marks)**

b) The following decision tree represents a decision under consideration:



If the decision is to select the option with the highest expected value (EV) of profit, advise the management of the option to take. **(5 marks)**

(c) The following information relates to some product CXV for the months of January, February and March 2013:

(i) Stock as at 1 January: 50 units @ Kshs 1,200 per unit (including variable cost of Kshs 800 per unit)

(ii) Production and sales quantities:

	January	**February**	**March**
Sales (units)	1,000	900	1,100
Production (units)	1,200	900	1,000

(iii) Costs incurred during the three months:

- Variable production cost per unit Kshs 800
- Variable administrative costs per unit Kshs 100
- Fixed production overhead per month Kshs 720,000
- Fixed administrative cost per month Kshs 300,000

(iv) Selling price per unit Kshs 3,500

Required:

Prepare a summary income statement for the three months using FIFO method of stock valuation. **(10 marks)**

c) A fishing company purchased four boats three years ago for deep sea fishing at a total cost of **Kshs 2 million.** However due to changes in fishing policy, these boats were rendered unsuitable for deep sea fishing and since the date of their purchase they have not been utilized. An investor is prepared to purchase them for sporting activities but will not pay for more than **Kshs 5 million.** The additional cost of converting these to sporting boats will cost the company an additional **Kshs 4 million**.

Required:

i) Identify relevant and irrelevant costs in the above situations. **(3 marks)**

ii) Should the company accept this deal? **(2 marks)**

QUESTION TWO

Jaramogi Oginga Odinga University of Science and Technology (JOOUST) has a fleet of vehicles and is trying to predict the annual maintenance costs per vehicle. The following data have been supplied for a sample of vehicles:

Vehicle number	1	2	3	4	5	6	7	8	9	10
Age in years (x)	2	8	6	8	10	4	4	2	6	10
Maintenance costs (y)	60	132	100	120	150	84	90	68	104	140

Required:

a) Using the high-low method, determine the fixed cost of maintenance. **(3 marks)**

b) Using least squares techniques, determine the values of **a** and **b** in the equation **y = a + bx,** to allow managers to predict the likely cost maintenance, knowing the age of the vehicle. **(2 marks)**

c) Prepare a table of estimated maintenance costs and percentage variations covering vehicles from 1 to 10 years of age, based on the trend obtained in (b) above. **(10 marks)**

d) Estimate the maintenance cost of 11-year old and 12-year old vehicles then comment on the validity of making such an estimate. **(5 marks)**

QUESTION THREE

Asembo Bay Leisure Hotels is planning to build a **1,400** room complex in Ukunda Kwale County. It has been suggested by a management accountant that the existing hotels in the county average only **70%** occupancy on an annual basis. The management is therefore advised to have only **1,000** rooms. It has been estimated that the cost per room per day is Kshs **2,800** no matter whether it is occupied or not. The following data, based on demand at similar hotels complexes, has been obtained:

Daily demand of rooms	No. of days in a year	Probability	Average price pep occupied room per day Kshs
800 (high)	216	0.6	2,000
600 (medium)	72	0.2	2,000
500 (low)	72	0.2	2,000
	360	**1.0**	

Required:

On the basis of this data, advise the management as to the number of rooms that the complex should have. The alternatives are; **1000, 1,200, 1,400 or 1,600**. **(20 marks)**

QUESTION FOUR

An engineering company operates a factory which consists of three workshops: - Machine, Assembly and Finishing. The number of direct hours to be worked, the direct labour costs and the variable overheads in respect of the forth coming year are estimated as follows:

	No. of direct labour hours	Direct labour cost (Kshs '000')	Variable overheads (Kshs '000')
Machine shop	10,000	32,000	8,000
Assembly shop	10,000	30,000	10,000
Finishing	5,000	18,000	6,000

Factory fixed overheads are estimated at **Kshs 40,000**. Administration/selling expenses are absorbed by adding **10%** of prime cost. Factory overheads are absorbed by use of predetermined rates per direct labour hours. Separate departmental rates are used for variable production overheads and a factory wide average rate for fixed production overheads.

Required:

Complete detailed quotation price for Product X given that a profit of **20%** of the final quoted price is required. The following information is available in relation to Product X:

		Kshs
Materials required from stores		960
Material to be bought		257
Direct labour estimates:		
	Machine shop	65 hours
	Assembly shop	40 hours
	Finishing	25 hours

Transport for Product X has been estimated at **Kshs 300**. This will be done by a local taxi operator. **(20 marks)**

QUESTION FIVE

The summary profit and loss statement for Ababu Ltd for the year ended 31st 2013 is as follows;

	Kshs '000'	Kshs '000'
Sales		320
Direct material cost	100	
Direct labour cost	40	
Production overhead:		
Variable	20	
Fixed	15	
Selling overhead:		
Variable	16	
Fixed	30	(221)
Net profit		**99**

During 2013 the company has been operating at **80%** capacity (**40,000** units) for production and sales for a single product. Variable overhead is incurred at a rate per unit. Variable selling overhead is incurred as a percentage of sales revenue. The 2013 figures will be used as a basis of the forecast for the year 2014, but the following changes should be implemented:

1. Selling prices will be reduced by **2%** but this will result in production/sales volume being increased to **100%** capacity level.
2. Direct material prices will increase by **10%**.
3. Direct labour rates will increase by **5%** but this will result in a **10%** saving through increased efficiency.

Required:

A forecast Profit and Loss statement for the year to 31st December 2014 is required. **(20 marks)**

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ABA 404 MANAGEMENT ACCOUNTING 1

BACHELOR OF EDUCATION (ARTS)

(YEAR FOUR)

ACADEMIC YEAR 2012/2013 FIRST SEMESTER (MAY-AUG, 2013)

COURSE FACILITATOR: GEORGE AYANGA

COURSE OUTLINE

OBJECTIVES

To develop the students understanding of the use of accounting information for internal management purposes so that at the end of the course they are able to:

- Differentiate between financial and management accounting.
- Use cost accounting data as a basis for managerial decisions on planning and control.
- Use cost accounting data for non-routine managerial decision making processes.
- Apply cost and financial analysis techniques to implement business strategy.

COURSE CONTENT

1. INTRODUCTION TO MANAGEMENT ACCOUNTING
    - ✓ Difference between financial and management accounting
    - ✓ Nature, scope and purpose of management accounting
    - ✓ Cost terms, concepts and classifications
    - ✓ Use of accounting information by management
2. COSTING ESTIMATION AND FORECASTING
    - ✓ Cost accumulation for product costing
    - ✓ Cost behaviour patterns, elementary cost estimation
    - ✓ product costing methods
3. SHORT TERM PLANNING
    - ✓ Simple CVP analysis
    - ✓ Relevant range
    - ✓ Margin of safety
    - ✓ CVP in multi-product environment
4. BUDGETARY CONTROLS
    - ✓ Control theory

- ✓ Budgeting: rationale and role
- ✓ Types of budgets
- ✓ Mechanics of budgeting
- ✓ Human considerations in budgeting

5. MARGINAL AND ABSORPTION COSTING
   - ✓ Absorption costing
   - ✓ Traditional methods of overhead absorption
   - ✓ Activity based costing
   - ✓ Marginal costing
6. STARNDARD COSTING BASIC VARIANCE ANALYSIS

REFERENCES

i) Drury, C. Management and Cost Accounting 2004, 6th edition BOOKPOWER.
ii) Management Accounting, Study Pack, FTC technical level 1996.
iii) Cost and Management Accounting 1, ACCA Study Pack, 2009.
iv) BR study text Paper No. 14