



The Co-operative University College of Kenya
(A Constituent College of Jomo Kenyatta University of Agriculture & Technology)

END OF SEMESTER EXAMINATION APRIL, 2016

EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE
(YR IV SEM II)

UNIT CODE: HBA 2405

UNIT TITLE: CONTEMPORARY ISSUES IN MANAGEMENT

DATE: 15TH APRIL, 2016

TIME: 2:00 PM – 4:00 PM

INSTRUCTIONS:

Answer Question **ONE** and any other **TWO** questions.

QUESTION ONE

- a) (i) What are the distinguishing characteristics between job-order order costing and process costing? (2 Marks)
(ii) Operation costing is a hybrid costing system the brings the two costing systems mentioned in (i) above together in what ways does operation costing combine job-order costing and process costing? (3 Marks)
- b) Nandos franchise is owned by a group of local surveys who have little time and experience to devote to the business. The survyeous have developed operating decisions which they have entrusted to a professional manager who is evaluated on the basis of return on investment (ROI). The following date represent the result of operations for March 2016.

	Kshs
Operating income	20,000,000
Sales	200,000,000
Averaging operating assets	100,000,000

Required;

Calculate the ROI of Nandos franchise (5 Marks)

- c) Suppose Nandos franchise was to assess managers using the Residues Income (RI) approach and the cost of capital (minimum required rate of return) is 12%.

Required;

Calculate the company's RI and explain which method assesses the manager's performance better and why. (5 Marks)

- d) Management Accountants owe the organizations they serve, their profession, the public and themselves, high, standards of professional conduct, State and explain four ethical standards, Management Accountants must observe. (8 Marks)
- e) Define backflush costing of inventory stating one advantage and two disadvantages of the system. (7 Marks)

QUESTION TWO

- a) What is meant by the term decentralization? (2 marks)
- b) Distinguish between a cost centre, a profit centre and on investment centres. (3 Marks)
- c) QRS company's contribution format income statement is as shown below:

QRS Company
Income Statement for the month
Ended March 2016

	Kshs.
Sales	7,500,000
Less; variable expenses	<u>3,360,000</u>
Contribution margin	4,140,000
Less , fixed expenses	<u>3,780,000</u>
Operating income	<u>360,000</u>

The management is not happy with the performance and wishes to improve on this. A closer examination reveals;

- i) The company is divided into two sales territories; Northern and Southern. The Northern territory recorded kshs 3,000,000 in sales and kshs 1,560,000 in variable expenses March 2016. The remaining sales and variable expenses were recorded in the Southern territory. Fixed expenses of kshs 1,200,000 and kshs 1,080,000 are traceable to Northern and Southern territories respectively. The rest of the fixed expenses are common to the two territories.
- ii) The company distributes two products: Paks and Tibs. The sales of Paks and Tibs totaled ksh.500, 000 and ksh.2, 500, 000 respectively in the Northern territory during March. Variable expenses are 22% of selling price for Paks and 58% for Tibs. Cost records show that ksh.300, 000 of the Northern territory's fixed expenses are traceable to Paks and Ksh.400, 000 to Tibs with the remainder being common to the two products.

Required:

Prepare contribution format segmented income statements for the territories and the company as a whole and also the Northern territory broken down by product lines.

Show both Amount and percent columns for the each segment. (15 Marks)

QUESTION THREE

- a) In what fundamental ways does activity – based – costing (ABC) differ from the traditional costing methods? (4 Marks)
- b) XYZ corporation is a diversified manufacturer of industrial goods. The company's ABC system contains the following six activity cost pools and activity rates;

Activity Cost Pool	Activity Rates
Labour related	kshs 600 per direct labour hour
Machine related	kshs 400 per machine hour
Machine set ups	kshs 5,000 per set up
Production order	kshs 9,000 per order
Shipments	kshs 1,400 per shipment
Product sustaining	kshs 84,000 per product

Activity data have been supplied for the following two products.

	Total Expected Activity	
Product	K425	M67
Number of units produced per year	200	2000
Direct labour hours	80	500
Machine – hours	100	1,500
Machine set ups	1	4
Production orders	1	4
Shipments	1	10
Product sustainly	1	1

Required:

Computes the total and average per unit cost of each of the products listed. (16 Marks)

QUESTION FOUR

- a) Why is cost accumulation easier under a process costing system than it is under a job-order costing system? (2 Marks)
- b) Lab and Athed uses a process costing system. The following data was available for one department for the month of February.

	Units	Percent of completion materials	Conversion
Work in process 1.2	30,000	65%	30%
Work in process 29.2	15,000	80%	40%

The department started 175,000 units into production during the month of February and transferred 190,000 completed units to the next department.

Required:

Compute the equivalent units of production for February assuming that the company uses the weighted Average method of accounting for units and costs. (12 Marks)

- c) Kangemi High School has placed a tender for 1000 chairs at Njuguna's workshop in Kangemi Market. The workshop has three departments namely Carving, Joining and Finishing as shown below:

Departments	Material Cost per chair	Labour cost Per chair	Overhead
Carving	300	250	100% of labour
Joining	200	220	2000% of labour
Finishing	220	100	300% of labour

Required:

Prepare a job cost sheet to respond to the tender.

(6 Marks)

QUESTION FIVE

- a) Explain why Net Income is not used in the net present value and internal rate of return methods of making capital budgeting decisions. (2 Marks)
- b) Explain why discounted cash flow methods of making capital budgeting decisions are superior to other methods. (2 Marks)
- c) The BIDCO Corporation is considering the purchase of a special purpose machine for Kshs 28,000,000. The machine is expected to have a useful life of seven years with no terminal salvage value. The corporation CEO estimates the following cash savings (cash inflows) in operating costs.

YEAR	AMOUNT (Kshs)
1	10,000,000
2	8,000,000
3	5,000,000
4	5,000,000
5	3,000,000
6	3,000,000
7	<u>6,000,000</u>
	<u>39,000,000</u>

Required:

- Compute:
- (i) The Payback period (3 Marks)
- (ii) Net present value at 16% discount rate (4 Marks)
- (iii) Internal Rate of Return (6 Marks)
- (iv) Profitability index (3 Marks)