MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2012/2013

FIRST YEAR SECOND SEMESTER EXAMINATIONS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (CITY CAMPUS - WEEKEND)

MBA 810: MANAGEMENT ACCOUNTING

Date: 28th July, 2013 *Time: 2.00 – 5.00 p.m.*

INSTRUCTIONS:

- Answer ANY FOUR questions.
- Begin each question on a fresh page.
- Workings MUST be shown where necessary

Question One.

(a) "Management Accounting is an academic discipline without a solid conceptual framework". Discuss the foregoing statement with particular regards to the limitations of Management Accounting.(5 Marks)

(b) Mbuni Co. Ltd intends to invest in setting up a sugar factory in Maseno area of Kisumu County. The company has three capacity choices to make; either to install a large factory, medium factory based on the projected outcome in any economic states of nature. From the available information the state of nature has three conditions i.e. strong, stable and weak state of nature.

The following details are a summary of performance in each state of nature

Investment Choice	**Profits earned per each state**		
	Strong Economy	**Stable Economy**	**Weak Economy**
Large Factory	400,000	100,000	(60,000)
Medium Factory	180,000	240,000	(15,000)
Small Factory	80,000	60,000	40,000

The probability distributions for strong, stable and weak economic conditions are as given below;

0.2, strong

0.5, stable

0.3 Weak.

Required:

a) Choice of alternative investment under

i) Maximax criterion (2 marks)

ii) Maximin criterion (2 marks)

iii) Minimax criterion (2 marks)

iv) Expected value for perfect information (EVPI) (4 marks)

Question Two

Khumundu Metalworks Limited manufactures and sells a single item, Product A. The following budgeted/actual information is provided in relation to the production of this product:

	Kshs.
Selling Price per Unit	50.00
Direct Materials per Unit	8.00
Direct Labour per Unit	5.00
Variable production overhead per unit	3.00

Details for the month of May and June 2012 are as follows:

	May	June
Production of Product A (units)	500	380
Sale of Product A (units)	300	500

Fixed production overheads are budgeted at Ksh.4000 per month and are absorbed on a unit basis. The normal level of production is budgeted at 400 units per month.

Other Costs	Kshs.
Fixed Selling	4,000 per month
Fixed Administration	2,000 per month
Variable Sales Commission	0.05 of sales revenue

There was no opening inventory of product A at the start of May.

Required:

a) prepare an income statement, in adjacent columns for each month under:
   (i) Absorption costing (5 Marks)
   (ii) Marginal costing (5 Marks)

b) Reconcile and explain the differences in your results in (a) above(5 Marks)

Question Three

A market gardener is planning his production for next season, and he has asked you as a cost accountant, to recommend the optimal mix of vegetable production for the coming year. He has given you the following data relating to the current year:

	Onions	Cabbages	Beetroots	Carrots
Area occupied (acres)	25	20	30	25
Yield per acre (tones)	10	8	9	12
Selling price per tone (Ksh)	100	125	150	135
Variable cost per acre (Ksh)				
Fertilizers	30	25	45	40
Seeds	15	20	30	25
Pesticides	25	15	20	25
Direct wages	400	450	500	570
Fixed overhead per annum Ksh 54,000				

The land that is being used for the production of carrots and beetroots can be used for either crop, but not for onions or cabbages. The land being used for onions and turnips can be used for either crop, but not for carrots or beetroots. In order to provide an adequate market service, the gardener must produce each year at least 40 tonnes each of onions and cabbages and 36 tonnes each of beetroots and carrots.

a) You are required to present a statement to show:

i) The profit for the current year; (3 marks)

ii) The profit for the production mix that you would recommend (3 marks)

b) Assuming that the land could be cultivated in such a way that any of the above crops could be produced and there was no market commitment; you are required to:

i) Advise the market gardener on which crop he should concentrate his production; (3 marks)

ii) Calculate the profit if he were to do so; (3 marks)

iii) Calculate in shillings the break-even point of sales (3marks)

Question Four

(a) Discuss the limitations of Cost-Volume-Profit (C-V-P) as a tool of short-tern financial analysis (5 marks)

(b) The following information relates to total maintenance costs of machine hours used a production process for a period of 12 months.

Month	Hours used (x)	Maintenance cost (y)
1	90	1500
2	150	1950
3	60	900
4	30	900
5	180	2700
6	150	2250
7	120	1950
8	180	2100
9	90	1350
10	30	1050
11	120	1800
12	60	1350

Using the least square method determine;

(i) Correlation coefficient (5 marks)

(ii) Coefficient of determination (3 marks)

(iii) Interpret your answer (ii) above. (2 marks)

Question Five

Karaoke Enterprises operates in an entertainment industry in Kenya. The Company is analyzing the viability of a concert it intends to hold in Nairobi, at an estimated fixed cost of Kshs 6,000,000; which includes the fees paid to performers, the hire of the venue and advertising costs.

Variable costs consists of the cost pre-packed meals which will be provided by a catering firm at a negotiated price of Kshs 1,000 for every ticket sold. The tickets are proposed to be sold at Kshs 2.000.
As a management accountant, the management has requested you for the following information:

(a) The number of the tickets that must be sold to break even. (3 marks)
(b) The number of tickets that must be sold to earn Ksh 3,000,000 target profit. (3 marks)
(c) The profit that would be generated if 8,000 tickets were sold. (3 marks)
(d) The selling price that would have to be charged to give a profit of Kshs 3,000,000 on sale of 8,000 tickets. (3 marks)
(e) The additional tickets that must be sold to cover extra cost of advertising of Kshs 800,000. (3 marks)

Question Six

a) Explain the concept of "Relevant Costs" in management accounting
Tumekwisha Company is currently producing a small subassembly that is used in the production of one of the company's main product lines. Tumekwisha Company's accounting department reports the following "costs" of producing the subassembly internally:

	Per Unit Kshs.	8,000units
Direct materials	6	48,000
Direct labour	4	32,000
Variable overhead	1	8,000
Supervisor's salary	3	24,000
Depreciation of special equipment	2	16,000
Allocated general overhead	5	40,000
	21	168,000

Tumekwisha Company has just received an offer from an outside supplier who will provide 8000 subassemblies a year at a price of only Kshs. 19 each.

Required:

a) Advise Tumekwisha Company whether to stop producing the subassemblies internally and start purchasing them from the outside supplier.

b) Outline at least four (4) qualitative factors to be considered before the decision in a)

Question seven

"No Friction" is an industrial lubricant, which is formed subjecting particular crude chemicals into two successive processes. The output of process 1 is passed to process 2, where it is blended with other chemicals. The process costs for period 3 were as follows:

Process 1

Material: 3000 kg @ Kshs 25 per kg.

Labour: Kshs 12,000.

Process plant time: 12 hours @ Kshs 2000 per hour.

Process 2

Material: 2000 kg @ Kshs 40 per kg.

Labour: Kshs 8,400.

Process plant time: 20 hours @ Kshs 1350 per hour.

The general overhead for period three amounted to Kshs 35,700 and is absorbed into process costs in a process labour basis.

The normal output for process 1 is 80% of input, while that of process 2 is 90% of input.

Waste matter from process 1 is sold for Kshs 20 per kg, while that of process 2 is sold for Kshs 30 per kg.

The output for period 3 was as follows:

Process 1	2,300 kg
Process 2	4,000 kg

There was no stock or work in progress at the beginning or the end of the period, and it is assumed that all available waste matter had been sold at the prices indicated.

Required:

(a) Process Accounts	(6 marks)
(b) Normal loss account	(3 marks)
(c) Abnormal loss and gain accounts	(6 marks)