

**W1-2-60-1-6**

## JOMO KENYATTA UNIVERSITY

**OF**

**AGRICULTURE AND TECHNOLOGY**

# University Examinations 2014/2015

**FIRST YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION**

**HCBA 3107 : MANAGEMENT ACCOUNTING**

**DATE: AUGUST 2015 TIME: 3 HOURS**

**INSTRUCTIONS: ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER**

**TWO QUESTIONS.**

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**QUESTION ONE (30 MARKS)**

(a) Describe five features that distinguish management accounting from financial accounting. [10 marks]

(b) A company decides to set the selling prices for one of its products. The following prices are under consideration and the units of the products that can be said under different working environments.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | **Price per unit** | | |
| Sh. 4.00 | Sh. 4.30 | Sh. 4.40 |
| **States of nature** | **Probability** |
| Best possible | 20% | 16,000 units | 14,000 units | 12,500 units |
| Most likely | 60% | 14,000 units | 12,000 units | 12,000 units |
| Worst possible | 20% | 10,000 units | 8,000 units | 6,000 units |

Using the following decision making approaches, determine best price that the company can set:

1. Minimax Regret. [5 marks]
2. Expected Opportunity Loss (EOL). [5 marks]

(c) Discuss the procedure of target costing as a management tool. [10 marks]

(d) (i) Explain the concept of Balanced Score Card (BSC). [2 marks]

(ii) Describe the four perspectives under the balanced scored card phenomenon. [8 marks]

**QUESTION TWO (20 MARKS)**

Twiga Co. Ltd. produces and sells a certain product at Ksh. 800 each, with variable cost of Ksh. 380 per unit and fixed cost of Ksh. 1,000,000. In addition, the company incurs selling and administration expenses of 2.5% of sales revenue and fixed cost of Ksh. 200,000.

**Required:**

(a) (i) Determine the units that should be sold to earn an income of Ksh.

500,000. [5 marks]

(ii) If the company was in the 35% tax bracket, how many units will have to be sold to achieve the Ksh. 500,000 targeted? [5 marks]

(b) Management is considering a policy which will increase the fixed cost by Ksh. 400,000 but cut down on variable costs by 20%.

1. What is the Break Even Point (BEP) in units and revenue under this policy? [5 marks]
2. At what sales level will the management be indifferent under the two policies? [5 marks]

**QUESTION THREE (20 MARKS)**

Sneb Ltd. has developed a new type of luxury car seat. The estimated labor time for the first unit is 12 hours but a learning curve of 75% is expected to apply for the first eight units produced. The cost of labor is Sh. 150 per hour. The cost of materials and other variable overheads is expected to total Sh. 2,300 per unit.

Sneb Ltd. plans on pricing the seat by adding a 50% mark-up to the total variable cost per seat, with the labor cost being based on the incremental time taken to produce the 8th unit.

**Required:**

(a) Calculate the actual rate of learning and state whether this means that the labor force actually learnt more quickly or less quickly than expected.

[4 marks]

(b) Briefly explain whether the adjusted price charged by Sneb Ltd. will be higher or lower than the price you calculated in part (a) above. You are NOT required to calculate the adjusted price. [4 marks]

(c) Explain the difficulties of using the learning curve in management. [6 marks]

**QUESTION FOUR (20 MARKS)**

(a) Distinguish between “committed fixed costs” and “discretionary fixed costs”.

[4 marks]

(b) ABC Ltd. produces a single product branded “Zed”. The standard cost for the month of July 2015 was as follows:

|  |  |  |
| --- | --- | --- |
| Direct material : | 5kg at Sh. 2 per kg | Sh. 10 |
| Direct labour : | 4 hours at Sh. 5 per 4 hour | 20 |
| Variable overheads: | 4 hours at Sh. 1 per hour | 4 |
| Fixed overheads : | 4 hours at Sh. 10 per hour | 40 |
| Total standard cost |  | Sh. 74 |

**Additional information:**

1. Budgeted production was 2,000 units while the actual production was 1,800 units.
2. The following were the actual costs for the month of July 2015:

|  |  |
| --- | --- |
|  | **Sh.** |
| Direct material, 12,000 kg | 26,400 |
| Direct labor, 9.800 hours | 44,100 |
| Variable overheads | 9,000 |
| Fixed overheads | 100,000 |
| Total cost | 179,500 |

**Required:**

1. Material price variance and material usage variance. [4 mark]
2. Labor rate variance and efficiency variance. [4 marks]
3. Fixed overhead volume variance and capacity variance. [4 marks]
4. Variable overhead expenditure variance and efficiency variance.

[4 marks]

**QUESTION FIVE (20 MARKS)**

(a) Unique Ltd. produces four products A, B, C and D. The following are the firm’s budgeted figures for the month of August, 2015.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **A** | **B** | **C** | **D** |
| Demand (units) | 1,500 | 1,800 | 1,000 | 4,000 |
| Selling price per unit (Sh) | 3,840 | 2,700 | 2,000 | 4,000 |
|  |  |  |  |  |
| Cost per unit (Sh) |  |  |  |  |
| Material | 1,200 | 1,200 | 800 | 1,200 |
| Labor | 1,500 | 800 | 600 | 1,200 |
| Variable overhead | 240 | 170 | 100 | 200 |
| Fixed overhead | 600 | 500 | 400 | 600 |

**Additional information:**

1. Material cost is Sh. 10 per kilogram and the firm has a total of 500kg.
2. Labor is paid at Sh. 10 per hour and is limited to 360 hours.

**Required:**

1. Calculate the production mix that would maximize profits for the month.

[5 marks]

1. Calculate the profit that would be realized if the firm produced the quantity computed in (i) above. [5 marks]

(b) Evaluate the five methods used in setting the transfer price of goods by companies. [10 marks]