



*(University of Choice)*

**MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**(MMUST)**

**MAIN, BUNGOMA, MUMIAS, BUSIA, WEBUYE CAMPUS**

**UNIVERSITY EXAMINATIONS**

**2021/2022 ACADEMIC YEAR**

**FIRST YEAR SEMESTER TWO EXAMINATION**

**FOR DIPLOMA**

**IN**

**BUSINESS MANAGEMENT**

**COURSE CODE: DAB 232**

**COURSE TITLE: MANAGEMENT ACCOUNTING**

**DATE: Tuesday 26<sup>TH</sup> APRIL 2022      TIME: 12-2PM**

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**INSTRUCTIONS TO CANDIDATES**

Answer QUESTION ONE and any OTHER TWO questions

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating ▲

This Paper Consists of 4 Printed Pages. Please Turn Over.

**QUESTION ONE (30 MARKS)**

- I. Discuss the role of management accounting in the management process (6 Marks)
- II. What is the basic difference between financial and managerial accounting (6Marks)
- III. Describe the decision making process (6 Marks)
- IV. Explain key attributes of a good management accounting system (6 Marks)
- V. Explain the importance of standard costing (6 Marks)

**QUESTION TWO (20 MARKS)**

a) The Tristate Company is faced with three investment opportunities for the coming year. The general economic conditions good, average and bad are expected to prevail during the coming year. The expected payoffs for each of the investment opportunities under each economic condition is given below

Alternative/Investment	Economic Condition		
	Good	Average	Bad
A	600,000	100,000	-200,000
B	400,000	200,000	100,000
C	200,000	200,000	200,000

Required: For the purpose of decision making, select the best alternative using

- i. Wald's criterion (3 Marks)
- ii. Savage criterion (3 Marks)
- iii. Laplace criterion (3 Marks)
- iv. Hurvicz criterion(3 Marks)

b) Auto Robot Ltd which manufactures product P has provided the following information.

Selling price per unit	P (shs)
	10
Variable cost per unit	2
Fixed cost	50,000

Required:-

- i. Calculate the B. E. P. of the product in units and in shs. (2 Marks)
- ii. Calculate the margin of safety if budgeted sales are 10,000 units ( 2 Marks)
- iii. Compute the profit of the product if sales in units are 20% above the B. E. P. (4 Marks)

**QUESTION THREE (20 MARKS)**

a) Kawasaki Company Ltd manufactures a broad range of engines for commercial products. At its Kenyan plant it assembles power saw engines and lawnmower engines. Information on these products is as follows:

Engine type	Power saw Engines	Lawnmower engines	Motor bike engines
Selling price	Ksh 80,000	Ksh 100,000	Ksh 125,000
Variable cost per unit	Ksh 56,000	Ksh 62,500	Ksh 75,000
Contribution per unit	Ksh 24,000	Ksh 37,500	Ksh 50,000
Contribution margin percentage (Ksh 24/80; 50/125 & 37.5/100) in (000)	30%	37.5%	40%
Estimated daily demand in units	60	60	60

Assume that only 600 machine hours are available daily for assembling engines, additional capacity cannot be obtained in the short run. The limiting factor is machine hours. It takes 2, 5 and 5 machine hours produce one power saw, one lawnmower and one motor bike engine respectively.

**Required:** Advise on the product mix that Kawasaki should produce during the period (8 Marks)  
b) A company currently operating at full capacity manufacturers and sells, product X at Ksh 2 per unit each. The current volume is 100,000 units per annum with the following cost structures.

***Operating Statement for the Year***

Sales 100,000 units @ sh.2 each	200,000
Less: Marginal cost - Direct Labor	80,000
	-Direct materials 50,000 (130,000)
Contribution	<u>70,000</u>
Less: Fixed cost	(30,000)
Operating profit	<u>40,000</u>

An opportunity has arisen to supply an additional 30,000 units per annum at sh.1.80.

Acceptance of this order would incur extra overtime premium of 20% for extra direct labor required.

**Required:** Should the order be accepted? (12 Marks)

**QUESTION FOUR (20 MARKS)**

- a) Explain types of standard costing that an organization can use to enhance its efficiency. (8 Marks)  
b) Assume that a company has the following budget for product A and product B.

Product	A	B	Total
Sales units	120,000	40,000	160,000
Sales @sh.5 & 10	600,000	400,000	1,000,000
Variable cost @sh.4 & 3	480,000	120,000	600,000
Contribution @ sh.1 & 7	120,000	280,000	400,000
	Total fixed cost		300,000
	Profit		100,000

**Required:**

- i. Compute the B E P in shillings and units for the total product and also for product A and B. (6 Marks)
- ii. Assume that the company proposes to change the sales mix to 1:1 in units, advise the company on whether this change is desirable (6 Marks)