



**MASINDE MULIRO UNIVERSITY OF SCIENCE AND
TECHNOLOGY**

**UNIVERSITY EXAMINATIONS
2021 / 2022 ACADEMIC YEAR**

MAIN EXAMINATION

**FOR THE DEGREE OF MASTERS IN BUSINESS
ADMINISTRATION**

COURSE CODE: MBA 807

COURSE TITLE: MANAGEMENT ACCOUNTING

DATE: MONDAY 25TH APRIL 2022 TIME: 2-5PM

INSTRUCTIONS TO CANDIDATES

ATTEMPT QUESTION ONE AND ANY OTHER THREE (3) QUESTIONS

TIME: 3 HOURS

MMUST observes ZERO tolerance to examination cheating

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

QUESTION ONE (30 Marks COMPULSORY)

- a) Explain the importance of qualitative factors in supplementing management accounting data when making non routine decisions (6 Marks)
- b) Distinguish management accounting from financial accounting (6 Marks)
- c) The manager of Mama JEE Steel WORKS, learned about linear regression analysis at an MBA course at MMUST. She decided to apply regression in her study of repair costs at her plant. She plotted 24 points for the past 24 months and fitted the following line.
Total repair cost = Sh 80,000 - 2.5X per month, where X is the number of machine hours worked. She was baffled because the result was nonsense. Apparently, the more the machines were run, the less the repair costs. She decided that regression was a useless creature.
- Why was the puzzling regression coefficient negative? Do you agree with the manager's conclusion regarding regression? Explain. (6 marks)
- d) Explain the advantages and disadvantages of imposed budgeting style. (6 marks)
- e) Highlight circumstances when imposed budgeting style would be advocated. (6 marks)

QUESTION TWO

WaOtieno Ltd produces two products and the following budget applies for 2020.

PRODUCT X PRODUCT Y

Selling Price	Sh. 6	Sh. 12
Variable costs	<u>2</u>	<u>4</u>
Contribution margin	4	8
Fixed costs apportioned	100,000	200,000
Units sold	70,000	30,000

You are required to calculate the break-even points for each product and the company as a whole and comment on your findings. (10 marks)

QUESTION THREE

Kate makes several products including Product W. Kate is considering adopting an activity based approach for setting its budget. The company's production activities, budgeted activity costs and cost drivers for next year are given below:

Activity	Sh.	Cost driver	Cost driver quantity
Set-up costs	200,000	No. of set-ups	800
Inspection/quality control	120,000	No. of quality tests	400
Stores receiving	252,000	No. of purchase requisitions	1,800

Machines are reset after each batch. Quality tests are carried out after every second batch. The budgeted data for Product W for next year are:

G-10 model of mobile phone. Cellulose Ltd wants to secure the order by quoting the most competitive price and plans to quote a price at 15% above its relevant cost.

Calculation of Total Cost in respect of the order is as follows:

Plastic component	\$5,000	The order requires a special type of plastic component. Only 25% of plastic is currently available in stock. It was purchased 3 years ago at the cost of \$1,500. If the rubber is not used on this order, it can be scrapped at a price of \$500. Remaining quantity shall have to be procured at the price of \$3,500.
Rubber	\$500	All the required quantity of rubber is currently available in stock. The cost of the current stock of rubber that may be used on the order is \$500. The current market value of the required quantity of rubber is \$600. If rubber is not used on the order, it could be used in the production of other models of cell phones.
Other material	\$1000	All other materials will have to be procured.
Direct labor	\$2500	\$2,500 represents the remuneration cost of direct labor in respect of the time that they work on the order. If direct labor is not utilized on this order, they remain idle for the entire time. Direct labor is paid idle time equal to 60% of the normal pay in order to retain them.
Supervisor's salary	\$1000	This represents the share of factory supervisor's salary for the number of days in which production for the order will take place.
Depreciation of equipment	\$1500	This represents the manufacturing equipment's depreciation for the number of days in which production for the order will take place.
Rent of factory plant	\$6000	This represents the share of rent of the factory plant for the number of days in which production for the order will take place.
Electricity	\$4000	The order would require 1500 units of electricity which is expected to cost \$4,000.
Overheads allocation	\$3000	This represents the apportionment of general and administrative overheads based on the number of machine hours that will be required on the order.
Total	\$24500	

Required:

React on the above TEN statements identifying the relevant and irrelevant costs using the principles discussed in class then quote the minimum price for Cellulose Ltd. (10 marks)

Direct materials	Sh 2.50 per unit
Direct labour	0.03 hours per unit @ \$18 per hour
Batch size	150 units
Number of purchase requisitions	80
Budgeted production	15,000 units

REQUIRED:

- Calculate, using activity-based costing, the budgeted total production cost per unit for Product W. (5 marks)
- Explain why a manufacturing company may decide to implement an activity based costing system and the benefits it may bring. (5 marks)

QUESTION FOUR

- Select and explain FOUR problems which a firm may face when setting standards for its operations. (5 marks)
- Management accounting in profit-seeking organizations may be different from that which could apply in non-profit organizations.

Required:

- Briefly outline the role of a management accountant using a profit-seeking organization as a setting. (3 marks)
- How are changes in technology affecting management accounting? (2 marks)

QUESTION FIVE

Consider the following payoff matrix where the payoffs represent profit

	S1	S2	S3	S4	S5
a1	15	10	0	-6	17
a2	3	14	8	9	2
a3	1	5	14	20	-3
a4	7	19	10	2	0

No probabilities are known for the occurrence of the states of nature. Make the optimal decision by using the following criteria

- Wald's
- Laplace
- Savage
- Hurwicz ($\alpha=0.6$)

(10 Marks)

QUESTION SIX

Cellulose Ltd is a manufacturer of cellular phone batteries. The company received a request to provide a price quote for a special order of 1000 custom-made batteries required for a new