



*(University of Choice)*

**MASINDE MULIRO UNIVERSITY OF SCIENCE AND  
TECHNOLOGY**

**(MMUST)**

**MAIN CAMPUS**

**UNIVERSITY EXAMINATIONS**

**2021/2022 ACADEMIC YEAR**

**MAIN EXAMS**

**SECOND YEAR SECOND SEMESTER**

**FOR DIPLOMA IN BUSINESS MANAGEMENT**

**COURSE CODE: DAB 232**

**COURSE TITLE: MANAGEMENT ACCOUNTING**

**DATE:** Tuesday 2<sup>nd</sup> August 2022 **TIME:** 8-10am

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INSTRUCTIONS TO CANDIDATES

1. Answer Question One and any Other Two Questions

**TIME: 2 HOURS**

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over.

**QUESTION ONE: (30 MARKS)**

A manufacturer of school bags prepares the following forecast for his factory for next year:

Bags to be produced and sold 18,000 units  
Average selling price per unit Sh 45  
Average variable cost per unit Sh 29  
Directly attributable fixed Production costs for the year Sh 90,000  
General office costs for the year Sh 150,000

**Required**

- (a) Calculate the breakeven point in terms of number of bags to be sold. **(4 marks)**
- (b) Calculate the margin of safety expressed as a percentage of the forecast number of bags to be sold. **(4 marks)**
- (c) Calculate the contribution Sales (C/S) ratio for the bags. **(2 marks)**
- (d) If the manufacturer wishes to make a profit of Sh80,000 next year, how many bags must he sell next year in order to achieve this target profit? **(6 marks)**
- (e) The manufacturer is considering whether he should rent a new machine at an annual cost of Sh15,000. The use of this machine will reduce unit variable cost to Sh 24. Advise the manufacturer. **(8 marks)**
- (f) The manufacturer could subcontract the production of school bags to a local supplier who would charge Sh 35 per school bag. Advise the manufacturer. **(6 marks)**

**QUESTION TWO ( 20 MARKS )**

- a) What is the Economic Order Quantity? **(2marks)**
- b) What are the assumptions of the EOQ Model? **(8 marks)**

A company uses 50,000 rings per annum, which cost Sh.100 each. The ordering and handling costs are Sh.1,500 per order and carrying costs are 15% per annum of costs i.e. it costs Sh.15 per annum (15% x 100) to carry a ring in stock.

**Required**

Determine the EOQ using the following methods.

- a) Graphical method **(4 marks)**
- b) Algebraic formula method **(6 marks)**

**QUESTION THREE( 20 MARKS )**

- a) The management of a computer manufacturer is considering opening a new factory. Evaluate the usefulness to management of both the payback period, net present value and profitability index techniques of investment appraisal when deciding where to locate the new factory. **(8 marks)**

b) A company is considering two mutually exclusive projects requiring an initial cash outlay of Sh. 10 million each and with a useful life of 5 years. The company's required rate of return is 10%. The cash flows expected to be generated by the projects are as follows.

<i>YEAR</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
Project A Shs	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Project B Shs	6,000,000	3,000,000	2,000,000	5,000,000	5,000,000

Required: using the net present value investment appraisal technique advice on the better project  
(12 Marks)

**QUESTION FOUR( 20 MARKS )**

- a) Explain the following terms, supported by an appropriate example: (i) fixed cost; (ii) variable cost; (iii) marginal cost; and (iv) contribution; (v) Relevant costs. **(10 marks)**
- b) Explain briefly how the following methods are used in cost estimation: **(2 marks each)**
- i. Account Analysis
  - ii. Engineering Analysis
  - iii. Scatter Graph Method
  - iv. High Low Method
  - v. Regression Analysis