



(University of Choice)

**MASINDE MULIRO UNIVERSITY OF
SCIENCE AND TECHNOLOGY
(MMUST)**

MAIN CAMPUS,

**UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR**

MAIN EXAMINATIONS

**FOR THE DEGREE
OF
MASTER OF BUSINESS ADMINISTRATION**

COURSE CODE: MBA 807

COURSE TITLE: MANAGEMENT ACCOUNTING

DATE: Wednesday, 27th July 2022

TIME: 2.00–5.00 pm

INSTRUCTIONS TO CANDIDATES

Answer Question ONE and any OTHER THREE

TIME: 3 Hours

MMUST observes ZERO tolerance to examination cheating

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QUESTION 1 (30 MARKS)

a) Mundeku Company produces stereo speakers. The selling price per pair of speaker is KSh 800. The variable cost of production is Ksh 300 and the fixed cost per month is KSh 50,000. For November, the company expects to sell 120 pairs of speakers.

Required:

- i) Calculate the expected profit. (2 marks)
 ii) Calculate the margin of safety in Shillings. (2 marks)
 iii) Calculate the expected profit for the November assuming that the company sells 120 pairs of speakers as planned but the selling price changes to Ksh 1,000. (3 marks)

b) Matendechere Home & Garden Limited is organized into departments. The following sales and cost data are available for the prior year:

	Dept A KSh	Dept B KSh	Dept C Ksh	Total Ksh
Sales	265,000	850,000	900,000	2,015,000
Less Variable cost	106,000	510,000	720,000	1,336,000
Contribution margin	159,000	340,000	180,000	679,000
Less fixed cost	60,000	85,000	92,000	237,000
	99,000	255,000	88,000	442,000

Required:

- i) Determine the weighted average contribution margin for the company? (3 marks)
 ii) What levels of sales is needed to earn a profit of Ksh 500,000 assuming the current mix. (3 marks)
 iii) In which department would you place emphasize in the advertisement? (2 marks)

QUESTION 2 (MARKS)

Butere Enterprises has developed a new fish-bait for which it is contemplating what price to charge per unit. The possible prices are: Ksh. 4.55; Kshs 4.65 and Kshs 4.75. The three price strategies is likely to lead to the demand levels (in units) with respective probabilities as shown in the following table:

	Price alternatives		
	Ksh 4.55	Ksh 4.65	Ksh 4.75
<i>Conditions</i>	Units	Units	Units
Best possible	8,200	12,000	15,200
Most likely	7,400	10,500	13,200
Worst possible	6,000	8,100	9,200
Fixed costs per month	Kshs	6,800	
Variable cost per unit	Kshs	2.95	

Required:

- a) Recast the information into an appropriate payoff matrix (2 marks)
 b) Advice management on the price to set using the following criteria
 i) Maximax (1 marks)
 ii) Maximin (1 marks)
 iii) Laplace criteria of rationality (2 marks)

iv) Minimum Regret (2 marks)

c) Using expected monetary value, advise the management on which price strategy to adopt in view of the following probability distribution. (2 marks)

d) Advise management on the risk situation (5 marks)

QUESTION 3 (20MARKS)

Aliaro Aloe vera Company wants to develop an estimate of its supplies costs. Omusola Laban, the proprietor, has collected what he believes to be the relevant data for the past 12 months. It is Omusola Laban's contention that the supplies cost should be closely related to the volume of aloe vera produced; thus, he has provided you with the following details:

Month	Units Produced	Cost of Supplies Kshs' 000
January	100	355
February	80	289
March	70	297
April	50	241
May	60	253
June	80	318
July	70	283
August	80	282
September	100	322
October	70	295
November	60	256
December	50	242

Required:

Formulate a monthly cost function using;

a) High-low method (4 marks)

b) Apply least square method (7 marks)

c) Evaluate the effectiveness of units produced as a basis for estimating cost of supplies. (4 marks)

QUESTION 4 (20MARKS)

a) Chavakali Chuma Metal Works produces three types of desks for which the operating statement is being reviewed as below:

	School Desk Ksh	Office Desk Ksh	Campus Desk Ksh	Total Ksh
Sales	800,000	500,000	1,200,000	2,500,000
Total costs	620,000	340,000	1,350,000	2,310,000
Profit/(Loss)	180,000	160,000	(150,000)	190,000

The total cost comprises 3/5 variable and 2/5 fixed. The proprietor

Hannah Ayuma is displeased with the performance of Campus Desks since it is eroding the business bottom line

Required:

i) Based on the above cost data, Should Campus Desk production be abandoned?(4 marks)

ii) What other factors should be considered? (2 marks)

b) Trumpet Okilgei's cost of manufacturing a Ngumu Torso, a popular soap stone carving of an ancestor is presented below: Ksh

Materials	50.00
Labour	25.00
Variable expenses	14.00
Fixed expenses	23.00
Total	112.00

A Ngumu soapstone torso is sold for Ksh 120.00

Okilgei's normal capacity is 10,000 carvings. The costs presented are in respect of 7,000 carvings. The popularity of Ngumu Torso carving has spread beyond Kenya and he has received an order for 3,000 carvings from Kigali, Rwanda. The foreign customer however wants the product at Kshs 100 per carving.

Required:

- Advice Trumpet Okilgei on whether the offer should be accepted. (7 marks)
- Suppose the offer was from Bungoma County, neighbouring Kakamega County where Trumpet Okilgei is located. What would you advise? (2 marks)

QUESTION 5 (20 MARKS)

Endebess Enterprises makes and sells one product which has the following production costs:

		Ksh
Direct labour	3 hrs @ sh.6 per hr.	18
Direct materials	4 kgs @ sh.7 per kg.	28
Production overheads	Variable	3
	Fixed	20
Standard production cost per unit		69

Normal output is 16,000 units per annum. Variable selling, distribution and administration costs are 20% of sales value. Fixed costs are Ksh.180,000 p.a

There are no finished goods at 1st April 2014. The fixed overhead expenditure is spread evenly throughout the year. The selling price per unit is Ksh.140. production and sales budgets are as follows:

	31st March 2014	30th March 2015
Production (units)	17,000	14,000
Sales (units)	14,000	16,000

Required:

Prepare profit statements for each of the periods, using the following methods of costing

- Marginal costing (6 marks)
- Absorption costing (6 marks)
- Reconcile the profits under the two methods above (3 marks)

QUESTION 6 (20 MARKS)

- Discuss the conceptual foundations of Management Accounting as a discipline of study (5 marks)
- Outline the limitations of Management Accounting (3 marks)
- Explain the concept of Strategic Management Accounting (SMA) and elucidate on how it mitigates the limitations of Management Accounting (7 marks)