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MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY

UNIVERSITY EXAMINATIONS

2021/2022 ACADEMIC YEAR

SECOND YEAR FIRST SEMESTER

MAIN EXAMINATION

FOR THE DEGREE OF MASTERS IN BUSINESS ADMINSTRATION

COURSE CODE: ADVANCED MANAGEMENT ACCOUNTING

COURSE TITLE: MBA 822

DATE: WEDNESDAY, 27ᵀᴴ JULY 2022   TIME: 2-5 PM

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE AND ANY OTHER THREE (3) QUESTIONS

TIME: 3 HOUR

MMUST observes ZERO tolerance to examination cheating

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

QUESTION ONE (30 MARKS)

a) The following table shows the number of units of a good produced and the total costs incurred.

Units produced	Total costs
100	40,000
200	45,000
300	50,000
400	65,000
500	70,000
600	70,000
700	75,000

Calculate the coefficients in the linear cost function $(y = a + bx)$ (6 marks)

b) The production manager of XYZ Company is concerned about the apparent fluctuation in efficiency and wants to determine how labour costs (in Sh.) are related to volume. The following data presents results of the 10 most recent batches.

Bach no	1	2	3	4	5	6	7	8	9	10
Units X	15	12	20	17	12	25	22	9	18	30
COST	180	140	230	190	160	300	270	210	240	230

Required;-

Compute the Coefficient of Determination (10 marks)

c) The possible payoff for the manufacturing company under alternatives expand, construct, subcontract decision under states of nature the product demand of high, moderate, low, and nil are as below.

Alternative	States of nature (product demand)			
	High	Moderate	Low	Nil
Expand	50,000	25,000	-25,000	-45,000
Construct	70,000	30,000	-40,000	-80,000
Subcontract	30,000	15,000	-1,000	-10,000

Indicate the taken under the following approach (**Show your workings**)

i. Optimistic (maximax) criterion (2 marks)
ii. Wald (maxmin) criterion (2 marks)
iii. Salvage (minmax regret) criterion (4 marks)
iv. Hurwicz criterion for $\alpha = 0.4$ (3 marks)
v. Laplace criterion (3 marks)

QUESTIONS TWO (20MKS)

a) Discuss any 4 limitations of CVP analyse (4mks)
b) Hassan plans to sell 6000 badges in the Kakamega shows at sh 90 each the badges cost sh 50 to produce. The rent for the booth in the show ground is sh 20 000 determine
   i. Breakeven point in units and shillings (4mks)
   ii. Margin of safely in units and shillings (4mks)

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iii. Number of units to earn profit before tax of 20% of sales (4mks)

iv. The number of units to earn a profits of sh 16 400 after 30% tax charge (4mks)

QUESTION THREE (20MKS)

a) XYZ is considering production schedule of a special tables called ROBO. It will take 80 his to make the first table. From previous records the following information is available.

Cumulative production	Cummulative time taken	Time per unit
600	18,153.6	30.256
1200	32,676.0	27.23

The cumulative conduction for period 9 is 3000 units determine

i. The type of learning curve model for XYZ (4mks)

ii. The value of learning curve (3mks)

iii. The learning curve coefficient (3mks)

iv. The time allowance necessary for the hatch of 100 in period 9 (2mks)

v. State and explain any 3 limitations of learning curve (3mks)

b) A manager has a choice between

i. A risky contract promising shs. 7 million with probability 0.6 and shs. 4 million with probability 0.4 and

ii. A diversified portfolio consisting of two contracts with independent outcomes each promising Shs. 3.5 million with probability 0.6 and shs. 2 million with probability 0.4

Required

Use expected monetary value (EMV) method to arrive at the decision? (5 marks)

QUESTION FOUR (20MKS)

a) Give any three objectives of transfer pricing 3mks

b) A new product ROBO is being launched by ABC LTD and the following costs have been estimated

Materials sh. 10 per unit

Labour sh 8 per unit

Variable overhead sh. 5 per unit

Fixed overhead have been estimated to be sh 50,000 per year and the budgeted production is 10,000 units per years. Determine the selling price based on

I. Full cost plus 20%   (5mks)

II. Marginal cost plus 40%   (5mks)

c) A company has two profit centres X and Y centres X sells of half of its output on the open market and transfers the other half to B. Cost and external revenues in the accounting period are as follows.

	X	Y	Total
External sales	8000	24000	32000
Cost of production	12000	10000	22000
Company profit			10,000

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Required What are the consequences of setting a transfer price at market value, show the profit statement, (7mks

QUETIONS FIVE (20MKS)

a) State and explain any five Factors affecting pricing decisions (5 marks)
b) Explain five objectives of budgetary planning (5 marks)
c) The cost of making component B 56 is given as below

	Sh.
Direct material	100
Direct labour	60
Production overheads	50
	210

The production overhead is 40% variable. The component could be bought at sh. 160 from an outsider supplier.

Required

Advice whether to make or buy the component. (5 marks)

d) Roasters Limited is a coffee-blending firm. It produces a special blend of coffee known as "Utopia Blend" by mixing two grades of coffee "A" and "B" as follows:

Material	Standard mix ratio	Standard price per Kg
A	40%	120
B	60%	100

A standard loss of 15% is expected. During the month of March 2022, the company produced 2,500 kg of "Utopia Blend". The actual quantities blended were as follows:

Material	Quantity used	Cost sh,
A	40%	120
B	60%	100

Required:

Calculate the following variances
  i.   Material price variance (3 marks)
  ii. Material usage variance (2 marks)