



KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2020/2021 ACADEMIC YEAR
SECOND YEAR FIRST SEMESTER
MAIN EXAMINATION

FOR THE DEGREE OF MASTER IN BUSINESS ADMINISTRATION
COURSE CODE: MBA 807

COURSE TITLE: MANAGEMENT ACCOUNTING

DATE: 22ND FEBRUARY, 2021

TIME: 9.00AM – 12NOON

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE AND ANY OTHER THREE (3) QUESTIONS

TIME: 3 HOURS

READ THESE INSTRUCTIONS FIRST

- ✓ The number of marks is given in brackets [] at the end of each question or part question.
- ✓ Sketch maps and diagrams should be drawn whenever they serve to illustrate an answer

You are required to answer **Question ONE** which is compulsory and any other **THREE** questions

QUESTION ONE

(a) Distinguish between the following terms as used in management accounting

- (i) Period costs and product costs (3 Marks)
- (ii) Cost object and cost unit (3 Marks)
- (iii) Cost allocation and cost apportionment (3 Marks)

(b) Pambo Limited manufactures a single product which sells at Ksh. 2,660 per unit. The following are the costs per unit of the product:

| | Ksh. |
|--------------------|------|
| Direct materials | 740 |
| Direct labour | 680 |
| Variable overheads | 590 |

The fixed overheads per annum amounted to Ksh. 8,255,000. The firm, which currently operates at 75% capacity, produces and sells 15,000 units per annum.

Calculate the:

- (i) break-even point in units
- (ii) break-even point in sales
- (iii) profit at the current production level
- (iv) profit for the year at full capacity
- (v) margin of safety
- (vi) the production level if the firm targets net income (after tax at 30%) of Ksh. 2,957,500

(12 Marks)

(c) The diversity of the business environment coupled with globalization has put corporate managers in a dilemma state. Explain the relevance of the management accountant in the management process of a corporation. (9 Marks)

QUESTION TWO

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 12 most recent weeks.

| Week No. | Units Produced(X) | Labour Costs(Y) |
|----------|-------------------|-----------------|
| 1 | 34 | 340 |
| 2 | 44 | 346 |
| 3 | 24 | 287 |
| 4 | 36 | 262 |
| 5 | 30 | 220 |
| 6 | 49 | 416 |
| 7 | 39 | 337 |
| 8 | 21 | 180 |
| 9 | 41 | 376 |
| 10 | 47 | 295 |
| 11 | 34 | 215 |
| 12 | 24 | 275 |

Required:

- (a) Estimate the cost function using:
 - (i) The high low method (3 marks)
 - (ii) Regression analysis (6 marks)
- (b) Assume that the Company intends to produce 45 units; 34 units next period Estimate the labour cost to be incurred. (4 marks)
- (c) Discuss the role of budgetary control in an organization (7 Marks)

QUESTION THREE

Laki Limited is considering whether to manufacture components Q_A, Q_B, Q_C and Q_D internally or buy it outside. The expected costs for each component in the coming year have been estimated as follows:

| | Component | | | |
|-------------------------|----------------|----------------|----------------|----------------|
| | Q _A | Q _B | Q _C | Q _D |
| Production (units) | 2,400 | 3,050 | 2,800 | 2,500 |
| Marginal cost per unit: | Kshs. | Kshs. | Kshs. | Kshs. |
| Direct materials | 3 | 5 | 8 | 6 |
| Direct labour | 7 | 6 | 9 | 5 |
| Variable costs | 6 | 8 | 4 | 7 |

Directly attributable fixed costs were estimated as follows:

| | |
|----------------------------------|-------|
| Component: Q _A -Kshs. | 6,500 |
| Q _B -Kshs. | 8,000 |
| Q _C -Kshs. | 7,500 |
| Q _D -Kshs. | 6,000 |

Other committed fixed costs Kshs. 78,000

A subcontractor has offered to supply components Q_A, Q_B, Q_C and Q_D for Kshs.14, Kshs.23 Kshs.19 and Kshs.21 per unit respectively.

Required:

- (a) Advise the company whether to buy or make the components.
(b) What other factors should the management consider in making the decisions in (a) above?

QUESTION FOUR

(20 Marks)

Homa Ltd. manufactures a single product called Bay-02. The following data relates to the product for the months of August and September, 2016.

| | <u>August</u> | <u>September</u> |
|-----------------------|---------------|------------------|
| Opening stock | - | 3,500 |
| Production (units) | 19,000 | 13,000 |
| Closing stock (units) | 3,500 | - |

The financial data for an activity level of 16,000 units per month is as follows:

| | <u>Ksh.</u> |
|-----------------------------------|-------------|
| Selling price per unit | 120 |
| Manufacturing costs: | |
| Direct material per unit | 35 |
| Direct labour per unit | 15 |
| Variable overheads per unit | 10 |
| Fixed costs per month | 270,000 |
| Selling and administration costs: | |
| - Variable per unit sold | 8 |
| - Fixed per month | 100,000 |

Required:

- (a) Prepare, in columnar format, profit statements for each of the two months, August and September, 2016 using:

(i) Absorption costing

(8 Marks)

(ii) Marginal costing

(8 Marks)

- (b) Reconcile and explain the difference in your results in (a) above.

(5 Marks)

QUESTION FIVE

(a) Explain five differences between management accounting and financial accounting.

(10marks)

(b) Poda Manufacturers produces three products R, S and T. The following information relates to the products for the last financial year.

| | Products | | |
|----------------|----------------|-----------------|----------------|
| | R | S | T |
| | <u>Ksh.</u> | <u>Ksh.</u> | <u>Ksh.</u> |
| Sales | 600,000 | 500,000 | 750,000 |
| Variable costs | <u>350,000</u> | <u>280,000</u> | <u>408,000</u> |
| Contribution | 250,000 | 220,000 | 342,000 |
| Fixed costs | <u>190,000</u> | <u>260,000</u> | <u>285,000</u> |
| Profit (Loss) | <u>60,000</u> | <u>(40,000)</u> | <u>57,000</u> |

The company is concerned with the poor performance and is considering stopping production of product S. Attributable fixed cost of Ksh. 93,000 is avoidable.

Required:

Advise the company on whether to stop production of product S.

(10 Marks)