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KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

MAIN EXAM

2021/2022 ACADEMIC YEAR

SECOND

~~FIRST~~ -YEAR FIRST SEMESTER

FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

COURSE CODE: **MBA 822**

ADVANCED

COURSE TITLE: **MANAGEMENT ACCOUNTING**

DATE: 9/6/22 **TIME:** 9am – 12NOON

INSTRUCTIONS TO CANDIDATES

Answer Question ONE (compulsory) and ANY OTHER THREE Questions

SECTION A

QUESTION ONE

a) Management accountants are required to conduct themselves ethically. A commitment to ethical professional practice requires observation of principles that express values and standards that guide conduct such as honesty, fairness, objectivity and responsibility.

Required:

With reference to the above statement, summarize six benefits of ethical behavior by management accountants in business (6 Marks)

b) Bob Ltd. manufactures two products namely; A and B. The following budget has been prepared for the year ending 30th June 2021.

	Product A	**Product B**	**Total**
Sales in Units	120,000	40,000	160,000
	Shs.	**Shs.**	**Shs.**
Sales	600,000	400,000	1,000.000
Variable Cost	(480,000)	(120,000)	(600,000)
Contribution	120,000	280,000	400,000
Total Fixed Cost			(300,000)
Profit			100,000

Additional Information:

1. The selling price per unit of Product A and Product B is Sh. 5 and Sh.10 respectively
2. The Variable cost per unit of Product A and Product B is Sh.4 and Sh.3 respectively.

Required:

i). Compute the Break- Even Point in total, in units and shillings for each of the products (6 Marks)

ii). Bob Ltd. proposes to change the sales mix of the products in units to 1:1 for product A and product B. Advise the company on whether the proposed change is desirable (14 Marks)

c) Describe three categories of environmental costs (6 Marks)

d) Discuss four challenges associated with the return on investment (ROI) approach in financial performance measurement (8 Marks)

SECTION B

QUESTION TWO

S Division and R Division are two divisions in the SR group of companies. S Division manufactures one type of component which it sells to external customers and also to R Division.

Details of S Division are as follows: Market price per component	$200
Variable cost per component	$105
Fixed costs	$1,375,000 per period
Demand from R Division	20,000 components per period
Capacity	35,000 components per period

R Division assembles one type of product which it sells to external customers. Each unit of that product requires two of the components that are manufactured by S Division.

Details of R Division are as follows:	
Selling price per unit	$800
Variable cost per unit:	
Two components from S	2 @ transfer price
Other variable costs	$250
Fixed costs	$900,000 per period
Demand	10,000 units per period
Capacity	10,000 units per period

Group Transfer Pricing Policy
Transfers must be at opportunity cost.
R must buy the components from S.
S must satisfy demand from R before making external sales.

Required:
(a) Calculate the profit for each division if the external demand per period for the components that are made by S Division is:

(i) 15,000 components
(ii) 19,000 components
(iii) 35,000 components (12 marks)

(b) Calculate the financial impact on the Group if R Division ignored the transfer pricing policy and purchased all of the 20,000 components that it needs from an external supplier for $170 each. Your answer must consider the impact at each of the three levels of demand (15,000, 19,000 and 35,000 components) from external customers for the component manufactured by S Division. (8 marks)

QUESTION THREE

A company is developing a new product. During its expected life, 16,000 units of the product will be sold for $82 per unit.

Production will be in batches of 1,000 units throughout the life of the product. The direct labour cost is expected to reduce due to the effects of learning for the first eight batches produced. Thereafter, the direct labour cost will remain constant at the same cost per batch as the 8th batch. The direct labour cost of the first batch of 1,000 units is expected to be $35,000 and a 90% learning effect is expected to occur.
The direct material and other non-labour related variable costs will be $40 per unit throughout the life of the product.
There are no fixed costs that are specific to the product.

Required:
(a)
(i) The expected direct labour cost of the 8th batch. (4 marks)
(ii) The expected contribution to be earned from the product over its lifetime. (4marks)

b) It is now thought that a learning effect will continue for all of the 16 batches that will be produced. **Calculate** the rate of learning required to achieve a lifetime product contribution of $400,000, assuming that a constant rate of learning applies throughout the product's life. (12 Marks)

QUESTION FOUR

a) Evaluate any three perspectives which the balanced scorecard focuses on (6 Marks)
b) Explain three advantages of benchmarking (6 Marks)
c) Repoh Ltd gives a considerable degree of autonomy to divisional managers and rewards them on the basis of return of investment(ROI) achieved. Recently, a number of divisional managers are unhappy with ROI figures and the bonuses they are receiving. Currently the company has two divisions P and Q. The following information is available for the year ended 30th June 2021:

	Division P		**Division Q**	
	Actual Sh. "million"	**Budget Sh. "million"**	**Actual Sh. "million"**	**Budget Sh. "million"**
Sales	40	50	110	96
Assets Employed	24	26.8	52	48.5
PBIT	41	65	11.4	6.7
ROI	17.1%	24.3%	21.9%	13.8%

Additional Information
The above figures include the apportioned costs of an automated warehouse shared by the two divisions
The data available for this facility for the year ended 30th June 2021 are:

	Actual Sh. "million"	Budget Sh. "million"
Dispatches	150	146
Assets Employed	8	8
Operating Costs:		
Depreciation	1.6	1.6
Other Fixed Costs	1.1	0.9
Variable storage costs	0.5	0.5
Variable handling costs	1.3	1.1
	4.5	**4.1**

Required:

Justifying your answer. Recalculate the ROI of the two divisions (8 Marks)

QUESTION FIVE

a) Kemikali Ltd. manufactures varieties of chemicals. One of the chemicals is branded "Maliza" and is manufactured using three types of ingredients: PP. KK and MM.

The standard ingredients usage and cost for one unit of "Maliza" is as follows:

Ingredient		Sh.
PP	30 grammes at Sh.0.8 per gram	24
KK	25 grammes at Sh.0.12 per gram	30
MM	15 grammes at Sh.0.10 per gram	15

Additional information:

1. During the month of March 2012. Kemikali Ltd. manufactured 115,000 units of "Maliza" using:
   3,500 kilogrammes of PP.
   2,000 kilogrammes of KK.
   1,900 kilogrammes of MM.
2. Kemikali Ltd. has used activity-based costing to allocate its overheads for a number of years .One of its main overheads is machine set-up costs. During the month of March 2012. The following information was available in relation to set-up costs:
3.

	Budgeted	Actual
Total number of units produced	370,000	450,000
Total number of set-ups	72,000	85,000
Total set-up costs (Sh.)	21,200,000	24,500,000

Required: Calculate the following variances for the ingredients in "Maliza":

i). Materials Usage Variance (4 Marks)
ii). Materials Mix Variance (4 Marks)
iii). Materials Yield Variance (4 Marks)
iv). Expenditure Variance (4 Marks)
v). Efficiency Variance (4 Marks)