School of Business and Economics

Jaramogi Oginga Odinga University of Science and Technology

Course code: MBA 810

Course title: MANAGEMENT ACCOUNTING

MAY- SEPT 2019

Instructor: Bosire J. Areri

Class meets on SUNDAY

Time: 3.00 – 6.00 P.M

LECTURE Room: 14

Course Description:

Expected Learning Outcomes:

At the end of the learning exercise, the learner is expected to:

i) Understand the objectives of decision making
ii) Estimate the cost of goods and services
iii) Analyze an organisations activities through budgetary control process
iv) Analyze variances for decision making

Topics Covered:

Week	Topic	Total Contact Hours
One	**. Accounting for managerial decision making**	**3hrs**

Week	Topic	Total Contact Hours
	• Analytical methodologies for decision making Meaning of management accounting ,scope, limitations applications Relationship between cost financial and management accounting	
Two	• Control for in profit making Organisation	**3hrs**
Three	• Control for in non- profit making Organisation	**3hrs**
Four	**Financial vs. managerial accounting systems**	**3hrs**
Five	• Cost concepts • Definition and purposes of cost classification	**3hrs**
Six	• Cost classifications Methods of cost classification	**3hrs**
Seven	• Cost volume profit analysis	**3hrs**
Eight		**3hrs**
Nine	**Budget as a planning tool** • Non routine decisions	**3hrs**
Ten	• Product costing and • use of cost and revenue accumulation for control and pricing	**3hrs**
Eleven	Responsibility accounting	**3hrs**
twelve		**3hrs**
Thirteen	**Examinations**	**3hrs**

Teaching Methodology:

Lectures, class discussions, assignments and group presentations

Assessments:

Assignments 15%

Class presentation 5%

Sit in cat 10%

Semester exams	70%
Total	**100%**

Required Reading:

Signed: _____ _____

CIMRD

JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS & ECONOMICS
UNIVERSITY EXAMINATION FOR THE DEGREE IN MASTERS OF BUSINESS ADMINISTRATION
2nd YEAR 1ST SEMESTER 2018/2019 ACADEMIC YEAR
KISII CAMPUS-PART TIME

COURSE CODE: MBA 810

COURSE TITLE: MANAGEMENT ACCOUNTING

EXAM VENUE: **STREAM: (MBA)**

DATE: **EXAM SESSION:**

TIME: 2 HOURS

Instructions:

1. **Answer Question ONE (COMPULSORY) and ANY other 2 questions**
2. **Candidates are advised not to write on the question paper.**
3. **Candidates must hand in their answer booklets to the invigilator while in the examination room.**

QUESTION ONE

a) i) Highlight the roles of the management accountant in the management process.(4 marks)
ii) Discuss four main environment within which decisions can be made. (4marks)

b) Assume that ABC ltd is trying to set the selling price for one of its products and three prices are under consideration. These are 4 shillings .4.30 and 4.40
The following information is also provided.
Alternatives

Condition	shs. 4.00	shs. 4.30	shs. 4.40
Best possible	16,000	14,000	12,500
Most likely	14,000	12,500	12,000
Worst possible	10,000	8,000	6,000

Fixed costs are = 20,000
Variable cost per unit = shs. 2
Required
a) Advice the company on the best price to set (12 marks)
b) Advice management on the risk situation. (4 marks)
c) Explain the limitations of management accounting. (6 marks)

QUESTION TWO

A company making roof tiles has been considering the likely demand for the roof tiles over the next 6 years and think that demand pattern will be as follows.

Situation	probability
High demand for six years	0.5
Low demand for six years	0.3
High demand for 3 years followed by low demand for 3 years	0.2

There is no possibility of low demand followed by low demand. Enlargement of capacity is required and that the following are the available options;

Option A install fully automatic facilities immediately at a cost of 5.4 million

Option B installs semi-automatic facilities immediately at a cost of 4 million

Option c installs the semi-automatic facilities immediately as in B and upgrade to fully automatic at an additional cost of 2 million. In 3 years' time provided demand has been high for 3 years.

The returns expected for the various demand and capacity options are estimated to be

If high demand if low demand

Option A	1.6 million per annum	0.6 million per annum
Option B	0.9 million per annum for 3 years then	0.8 million p.a
	0.5 Million per annum for 3 years	
Option C	0.9 million p.a for 3 years and then followed	0.8 million p.a then
	By 1.1 million per annum for next 3 years	0.3 million p.a for 3years

What decision should the firm take assuming that the objective is to maximize value? (20 marks)

QUESTION THREE

a) The following information is provided for jasho lako limited for he year ended 31.12. 2018

Sales	200,000
Fixed costs	700,000
Margin of safety ratio	30 %
P/V ratio	20 %

Required:

i) Break- even point. (3 marks)
ii) Selling price per unit. (3 marks)
iii) Variable cost (2 marks)
iv) Net profit (2marks)
v) Sales when profits are sh. 500,000 (2 marks)

b) Discuss the functions of a budget. (8 marks)

QUESTION FOUR

Olwenyi company manufacturers two products alpha and sigma .alpha is produced in department 1 and sigma in department 2 .the following information is available for 2017

Standard material and labour cost

Material x	7.20 per unit
Material y	16.00 per unit
Direct labour	12.00 per hour

Overhead is recovered on direct labour hour basis. The standard material and labour usage for each product is as follows;

	Model x	model y
Material x	10 units	8 units

Material y	5 units	9 units
Direct labour	10 hours	15 hours

The balance sheet for the previous year ended 2016 was as follows;

Fixed assets			
Land		170,000	
Buildings and equipment	1,292,000		
Less depreciation	255,000	1,037,000	1,207,000
Current assets			
Stock of finished goods	99,076		
Raw materials	189,200		
Debtors	289,000		
Cash	34,000		
	611,276		
Liabilities			
Creditors	248,800		362,476
			1,569,476
Represented by shareholders interest			
1,200,000 ordinary shares of sh. 1 @			1,200,000
Reserves			369,476

Other relevant data is as follows for the year 2017

	Finished product	
	Alpha	sigma
Forecast sales (units)	8,500	1,600
Selling price per unit	400	560
Ending inventory required units	1870	90
Beginning inventory (units)	170	85
	Direct material	

	Material x	material y
Beginning inventory units	8500	8000
Ending inventory required units	10200	1700
	Department 1	department 2
Budgeted variable overhead rates		
Indirect materials	1.20	0.80
Indirect labour	1.20	1.20
Power (variable portion)	0.60	0.40
Maintenance (variable portion)	0.2	0.40
Budgeted fixed overheads		
Depreciation	100,000	80,000
Supervision	100,000	40,000
Power (fixed option)	40,000	2,000
Maintenance (fixed option)	45,600	3196
Estimated non-manufacturing overheads		
Stationery	4,000	
Salaries		
Sales	74,000	
Office	28,000	
Commissions	60,000	
Car expenses (sales)	22,000	
Advertising	80,000	
Miscellaneous (office)	8, ooo	
	276,000	

Budgeted cash-flows

	Q1	Q2	Q3	Q4
Receipts from customers	1000,000	1,200,000	1,120,000	985,000

Payments				
Materials	400,000	480,000	440,000	547,984
Wages	400,000	440,000	480,000	646,188
Other costs	120,000	100,000	72,016	13,642

Required

a) Sales budget
b) Production budget
c) Direct materials usage budget
d) Direct materials purchases budget
e) Direct labour budget. (20 marks)

QUESTION FIVE

Algeria Company limited is considering three investment alternatives for the same spare cash. ORC ltd shares A1, FBN ltd A2 and FIS ltd shares A3 . It is expected the economy will either boom N1 or bust N2 and it is also estimated that the boom is most likely (p=0.60) than a bust (p=0.4) outcome for the three alternatives are expected to be (1) shs. 2000 in the boom or shs. 500 in the bust for ORC (2) shs. 6000 in the boom in the bust for FBN and (3) shs. 1,200 for FIS in either case.

Required:

a) Prepare a payoff table and show which alternative maximizes expected value (7 marks)

b) If management of Algeria company had no idea of the economic probabilities in
   i) What would be their decision based on uncertainty using the following rules
      Maxmax (3marks)
      Maxmin (3marks)
      Laplace criterion (3marks)
      Minmax regret (3marks)
   ii) Differentiate the following terms
      Marginal cost and marginal safety (4marks)
      Sunk cost and opportunity cost (4marks)