

JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
MASTER OF BUSINESS ADMINISTRATION -ACCOUNTING
ADVANCED MANAGEMENT ACCOUNTING MBA-815
AUGUST 2013 EXAMINATIONS

ANSWER ANY FOUR QUESTIONS.

QUESTION ONE

Emirand Enterprises Ltd has two divisions Mugaa and Gwashati. Mugaa division manufactures an intermediate product for which there is no external market. Gwashati division incorporates the intermediate product into a final product, which it sells. One unit of the intermediate product is used in the production of the final product. The expected units of the final product which Gwashati division estimates it can sell at various selling prices are as follows:

Net selling Price	Quantity sold
Sh.	Units
100	1000
90	2000
80	3000
70	4000
60	5000
50	6000

The variable and fixed costs of each division are as follows:

	Mugaa	Gwashati
	Sh.	Sh.
Variable cost pr unit	11	7
Fixed cost per annum	60,000	90,000

The transfer price is Sh.35 for the intermediate product, and is determined on a full cost-plus basis.

Required:

- i) Profit statements for each division and the company as a whole for the various selling prices. 10MKS
- ii) Which selling prices maximize the profits of Gwashati division and the company as a whole? Comment on why the selling price (which is selected by the company) is not selected by Gwashati division. (5 marks)

QUESTION TWO

High-tex Engineering Company Limited wishes to set flexible budgets for each of its operating departments. A separate maintenance department performs all routine and major repair works on the company's equipment and facilities. The company has determined that maintenance department performs all routine and major repair works on the company's equipment and facilities. The company has determined that maintenance cost is primarily a function of machine hours worked in the various production departments.

The maintenance cost incurred and the actual machine hours worked during the months of January, February, March and April 2011 were as follows:

Month	Machine hours in Production departments	Maintenance department's Costs
		Sh.
January	800	350
February	1,200	350
March	400	150
April	1,600	550

Required:

- a) Determine the cost estimation function using:
 - i High-low method. (5 marks)
 - ii Regression analysis (8 marks)
- b) Using the regression function estimate the maintenance costs that would have been incurred if the machine hours were expected to be 900 in the month of May 2012. (2marks)

QUESTION THREE

KWABUK Health Centre specializes in the provision of sports/exercise and medical/dietary advice to clients. The service is provided on a residential basis and clients reside for whatever number of days that suit their needs. Budgeted estimates for the year ending 30 June 2012 are as follows:

1. The maximum capacity of the center is 50 clients per day for 350 days in the year.
2. Clients will be invoiced at a fee per day. The budgeted occupancy level will vary with the client fee level per day and is estimated at different percentages of maximum capacity as follows:

Client fee	Occupancy level	Occupancy as a percentage of maximum capacity
per day (sh)		
3,600	High	90%
4,000	Most likely	75%
4,400	Low	60%

3. Variable costs are also estimated at one of the three levels per client day. The high most likely and low levels per client per day are Sh.1,900, Sh.1,700 ad Sh.1,400 respectively.
4. The range of cost levels reflects only the possible effect of the purchase prices of goods and services.

Required:

- i. A summary which shows the budgeted contribution to be earned by KWABUK Health Centre for the year ended 30 June 2002 for each of the nine possible outcomes.
(9 marks)
- ii. State the client fee strategy for the year to end 30 June 2012 which will result from the use of each of the following decision rules.
- (a) Maximax;
(b) Maximin;
(c) Minimax regret. (6marks)

QUESTION FOUR

Zerturah is planning to sell badges at the forthcoming Nairobi Show at Sh.9 each. The badges cost Sh.5 to produce and she incurs Sh.2000 to rent a booth in the Show ground.

Required:

- a) Compute the breakeven point in units and shillings
b) Compute the margin of safety
c) Compute the number of units that must be sold to earn a before tax profit of 20%
d) Compute the number of units that must be sold to earn an after tax profit of Sh.1640, assuming that the tax rate is 30%. 15 marks

QUESTION FIVE

- a) What is your understanding of Relevant and irrelevant costs 3mks
b) Discuss the six steps of a planning and decision making process 12mks

QUESTION SIX

- a) In the context of budgetary control explain the main functions and importance of a cash budget. (3 marks)

- a) You are in charge of making forecasts and preparing budgets. You have been supplied with cost and revenue forecasts and details of payment as follows:

1. Forecast of revenue and costs for the quarter ending 31 March 2011

	January Shs.	February Shs.	March Shs.
Direct			
Materials (purchases)	112,000	100,000	135,000
Wages	90,000	80,000	100,000
Overhead			
Production	34,000	32,000	40,000

Administration	22,000	20,000	27,000
Selling and distribution	13,000	11,000	18,000
Sales	360,000	350,000	440,000

2. Forecast of revenue and costs for the quarter ending 30 June 2011

	April Sh.	May Sh.	June Sh.
Direct			
Materials (purchases)	90,000	67,000	79,000
Wages	72,000	54,000	63,000
Overhead			
Production	45,000	36,000	40,000
Administration	22,000	25,000	27,000
Selling and distribution	13,000	11,000	16,000
Sales	350,000	360,000	360,000

Cash balance on 1 April 2001 Sh. 90,000

1. Other details

- Period of credit allowed by suppliers averages two months.
- Debenture to the value of Shs. 125,000 are being issued in May 2011 and the amount is expected to be received during the month.
- A new machine is being installed at the end of March 2011 at a cost of Sh 150,000 and payment is promised in early May 2011.
- Sales commission of 3% is payable within one month of sales.
- A dividend of Sh 100000 is to be paid in June 2011.
- There is a delay of one month in the payment of overheads. There is also a delay in payment of wages averaging a quarter of a month.
- Twenty per cent of the debtors pay cash, receiving a cash discount of 4% and 70% of debtors pay within one month and receive a cash discount of 2 ½%. The other debtors pay within two months.

Required:

A cash budget on a monthly basis from the second quarter of the year 2011. (12 marks)

