JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY - KISII CAMPUS

THE SCHOOL OF BUSINESS AND ECONOMICS

SEMESTER EXAMS FOR MASTER OF BUSINESS ADMINISTRATION. 1ST YEAR 2nd SEM. MAY-AUGUST 2014

MBA 810: MANAGEMENT ACCOUNTING
TIME 3 HOURS
ANSWER ANY FOUR QUESTIONS

QUESTION ONE

a) In his study of: "the impact of budgets on people" K. Makandu reported the following comment by a financial controller on the practice of participation in setting budgets in his company:"We bring in the supervisors of budget areas, we tell them that we want their frank opinion, but most of them just sit there and nod their heads. We know they are not coming out with exactly what they feel. I guess budget scares them".
Explain why managers may be reluctant to participate fully in setting budgets, indicating the negative side effects, which may arise from the imposition of budgets by senior management. (9 marks)

b) Discuss major differences between financial accounting and management accounting.(6 mks)

QUESTION TWO

A processing company, Timber Co. Ltd., is extremely busy. It has increased its output and sales from 12,900 kg in 1st quarter of the year to 17,300 kg in the 2nd quarter. Although demand is still rising, it cannot increase its output more than an additional 5% from its existing labour force, which is now at its maximum.

Data for its four products in 2nd quarter were:

	Product P	**Product Q**	**Product R**	**Product S**
Output (Kg)	4560	6960	3480	2300
Selling price (Sh. Per kg)	162	116.40	99.20	136.80
Costs (Sh. Per kg)				
Direct labour @ Sh.60 per hour)	19.60	13.00	9.90	17.00
Direct materials	65.20	49.00	41.00	54.20
Direct packaging	8.40	7.40	5.60	7.00

Fixed overhead (Absorbed on basis of direct labour cost)	39.20	26.00	19.80	34.00
	132.40	**95.40**	**76.30**	**112.20**

The Kangundo Company has offered to supply 2000 kg of product Q at a delivered price of 90% of Timber's Co. Ltd. Selling price. Timber Co. Ltd. will then be able to produce extra of product P instead of product Q to the plant's total capacity.

Required:

State, with supporting calculations, whether Timber Co. Ltd should accept the Kangundo Company's offer. (15 marks)

QUESTION THREE

Caltex 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 2013 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. (4 marks)
   ii Regression analysis (6 marks)

b) Using the regression function estimate:
   i The maintenance costs that would have been incurred if the machine hours were expected to be 900 in the month of May 2003. (1 mark)
   ii The maximum machine hours that would have been worked if the maintenance cost incurred had been limited to Sh.400,000 for the month of May 2013. (4 marks)

QUESTION FOUR.

The following information has been extracted from the books of Hill Crest Ltd for the year to 31 March 2010:

	Units '000'
Production	30
Sales	24
Production cost incurred:	**Sh '000'**
Direct material	7,200
Direct labour	1,800
Variable overheads	1,500
Fixed overheads	2,700
Selling and administrations costs:	
Sales and salaries	450
Variable sales commission	300
Promotion and advertising	480
Other fixed costs	720

The company's unit selling price is Sh 550.

Required:

a) Profit and loss statement under direct costing approach. (7 marks)

b) Profit and loss statement under indirect costing approach. (8 marks)

QUESTION FIVE.

The following data relate to Kenya Ltd for the year ended 31 December 2013

	Sh '000'
Sales	24,000
Less: Total costs	20,000
Net profit	4,000

Fixed costs account for 40% of the total costs.

Required:

i) Margin of safety. (2 marks)

ii) Break-even point in sales (2 marks)

iii) Sales required to earn profit of Sh 6,000,000. (3 marks)

iv) In order to increase sales, the management has the following two options:

1. To increase sales by 25% on incurring a sales promotion cost of Sh 2,500,000.
2. To increase sales by 15% on reducing selling price by 5%.

Advise the management on which option they should take. (8 marks)

QUESTION SIX.

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	**February**	**March**
	Shs.	**Shs.**	**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	May	June
	Sh.	Sh.	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 2011 Sh. 90,000

3. **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. (15 marks)