KISII UNIVERSITY

UNIVERSITY EXAMINATIONS

**FIRST YEAR EXAMINATION FOR THE AWARD OF THE
DEGREE OF MASTER OF BUSINESS ADMINISTRATION
SECOND SEMESTER, 2021/2022
(JUNE-SEPTEMBER, 2022)**

MBAD 712: MANAGEMENT ACCOUNTING

STREAM: Y1 S2   **TIME: 3 HOURS**

DAY: TUESDAY, 9:00-12:00 PM   **DATE: 11/10/2022**

INSTRUCTIONS
1. *Do not write anything on this question paper.*
2. *Answer Question ONE and any other TWO Questions.*

QUESTION ONE

The production manager of ABC Ltd is concerned about the apparent fluctuation in efficiency and wants to determine how labour costs (in shs) are related to volume. The following data presents the results for the 12 most recent weeks.

Week No	Units Produced (X)	Labour Cost (Y)
1	3400	340,000
2	4400	345,000
3	2400	287,000
4	3600	262,000
5	3000	220,000
6	4900	416,000
7	3900	337,000
8	2100	180,000
9	4100	376,000
10	4700	295,000
11	3400	215,000
12	2400	275,000

Required

a) Estimate the cost function using

i) High-Low Method   (4marks)

(ii) Regression Analysis   (6marks)

b) Assuming the company intends to produce

i) 4500 units

ii) 3400 units next period.

Estimate the labour cost to be incurred   (6marks)

c) Differentiate between management accounting and cost accounting (9marks)

QUESTION TWO

The financial director of SE Ltd is considering a national launch of a new washing machine. The potential sales of the product are classified as being either high. Medium or low and the net present value of the machine sales under each category of these three conditions is estimated to be Shs. 50Million, Shs. 10Million –Shs20Million respectively. The marketing director estimates that there is 0.4 probabilities for high sales; 0.25 probability for medium sales and 0.35 probability for low sales.

Required.

a) If the company intends to maximize the expected Net Present value, Determine whether the new product should be launched or not.
                                                                      (10marks)
b) Present the above information in a decision tree.   (5marks)
c) Distinguish between risk and uncertainty in the context of a manufacturing entity.   ($2^{1/2}$ marks)

QUESTION THREE

a) Explain any five attributes of good information.   (5marks)

b) A Company makes and sell product X and the management accountant has made the following estimates

Condition	Selling price Shs 10		Unit variable Costs	
	Sales Demad (Units)	probability		Probability
Worst Possible	45000	.3	5.5	.15
Most Likely	50000	.6	4.0	.55
Best Possible	55000	.1	3.5	.30

Fixed costs were Kshs. 240,000

Required

a) Computation of the expected Profit   (5marks)

b) The probability that the company will fail to break-even   (5marks)

c) If the company has a profit target of shs. 60,000, what is the probability that the company will not achieve its target   ($2^{1/2}$marks)

QUESTION FOUR

a) Explain the key assumptions of the C-V-P analysis.   (6marks)

b) Thunder manufacturing company produces toxic product Coros that must be sold in the month its produced or else discarded. It can manufacture the product at a variable cost of Shs. 40 per unit or they can purchase it from an outside supplier at the cost of shs.70 per unit. Thunder can sell Coros at Sh 80 per unit. Production levels must be set at the start and cannot be changed during the period. The production process is such that at least 9000 units must be produced during the period. Thunder management must decide whether to produce or to purchase from the outside supplier.

The possible sales of Coros and their probabilities are

Demand	Probability
Units	
4,000	.4
7,000	.5
11,000	.1

Required

i)   Expected Demand   (2marks)

ii) Expected profit from purchasing Coros from the outside supplier
     and selling it   (5marks)

iii) Expected profit from manufacturing and selling the product.
                                                                 (3marks)

iv) Coefficient of variation for each of the alternatives and the ultimate
     advice to management   ($1^{1/2}$marks)