

DBAD O223/DHRM 0171: MANAGEMENT ACCOUNTING

INSTRUCTIONS

- 1. Do not write anything on this question paper.**
- 2. Answer Question ONE [Compulsory] and any other THREE Questions.**

1. a) Explain the role of management accounting in management process. [10 marks]
- b) The production manager of Nyakoe ltd is bothered about the apparent fluctuation between labour cost (in Ksh) and units of bread baked. The following is data of the most recent period i.e. the year 2013

Month	Production (units)	Labour cost (shs)
January	350	8000
February	300	7500
March	400	9000
April	250	5500
May	375	8500
June	200	5,000
July	100	4800

- c) Using the Least-Squares method estimating relationship advice the manager on fixed and variable labour cost. [10 marks]
 - d) If the company intended to produce 4,000 units in January 2014, what would be the labour cost? [5 marks]
2. A Dream Holdings company is considering three investment alternatives for some spare cash. E.A Portland cement share, Athi River Mining shares and Bamburi Cement Ltd shares. It is expected that the economy will be at boom, or bust and it is also estimated that a boom is more likely than a bust at a probability of 0.6 and 0.4 respectively. Outcome for the three alternatives are expected to be KSHs 2000 in boom or KSHs 500 in bust for Portland cement, KSHs 6,000 in boom but KSHs (5000) in bust for Athi River Mining and KSHs 2,000 for Bamburi Cement in either cases.

Required;

- a. Prepare a payoff table and show which alternative maximizes expected monetary value.
- b. If the management of Dream Holdings had no idea of the economic probabilities, what would be their decision based on uncertainty using the following rules.
 - i. Maximax,
 - ii. Maximin [5 marks]
 - iii. Minmax Regret [5 marks]
 - iv. Laplace Techniques

3. a) What are the key attributes of a good management accounting system? [5 marks]
- b) The following cost information has been obtained from the latest monthly accounts for an output level of 10,000 units for the manufacturing department of ABC Company.

Item	Ksh
Direct materials	100,000
Direct labor	140,000
Indirect Labor	30,000
Depreciation	15,000
Repairs and maintenance	10,000
	295,000

Required:

Estimate the total cost of producing 10,000 units [10 marks]

4. a) Differentiate between the following terms using relevant illustrations as used in management accounting.
- Ideal and normal standards [4 marks]
 - Cost unit and a cost driver [2 marks]
 - Cost centre and a profit centre [2 marks]
- b) Describe the role and rationale of budgeting [4 marks]
5. Assume that you are planning to sell badges at the forthcoming Nairobi Show at Sh.9 each. The badges cost Sh.5 to produce and you incur Sh.2000 to rent a booth in the Show ground.

Required:

- Compute the breakeven point [5 marks]
- Compute the number of units that must be sold to earn a before tax profit of 20%. [5 marks]
- 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%. [5 marks]