

CHUKA



UNIVERSITY

## UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF MASTER OF BUSINESS  
ADMINISTRATION

MBAD 812: MANAGERIAL ACCOUNTING

STREAMS: MBAD (Y1S2) ODEL

TIME: 3 HOURS

DAY/DATE: MONDAY 14/04/2025

2.30 P.M. – 5.30 P.M.

**INSTRUCTIONS**

- Answer question one and any other two questions

**QUESTION ONE**

a) Bright Star Ltd manufactures and sells a single product. The product sells for Sh. 500 per unit and has a contribution margin ratio of 30%. The company's fixed expenses are Sh. 1,200,000 per year.

**Required:**

- Calculate the variable expenses per unit. (2 marks)
- Determine the break-even point in units and in shillings. (5 marks)
- What sales level in units is required to earn an annual profit of Sh. 150,000 after tax, assuming a 25% tax rate? (3 marks)

b) The following data relates to the maintenance costs and machine hours used by Green Valley Ltd over the past six months:

Month	Machine Hours (000)	Maintenance Cost (Sh. 000)
January	4	80
February	5	90
March	3	70

Month	Machine Hours (000)	Maintenance Cost (Sh. 000)
April	6	100
May	4	85
June	2	60

**Required: estimate the cost function**

- i) Using the high-low method (5 marks)
- ii) Using the regression method (8 marks)
- iii) Estimate the maintenance cost for July if the company expects to use 3,500 machine hours. (2 marks)

c) Tech Solutions Ltd produces three products: A, B, and C. The expected demand for the next year is as follows:

- Product A: 10,000 units
- Product B: 8,000 units
- Product C: 6,000 units

The following cost and time data are available:

Product	Variable Cost (Sh.)	Selling Price (Sh.)	Time per Unit (Hours)
A	15	30	2.0
B	20	40	2.5
C	25	50	3.0

Due to a labor shortage, the company has only 50,000 labor hours available for the next year.

**Required**

Determine the most profitable product mix given the labor constraint. (10 marks)

d) Explain the role of management accounting in decision-making and control within an organization. (5 marks)

**QUESTION TWO**

a) Malimingi communication is a digital TV service provider. The firm is considering launching an additional package dubbed "premia". The following information relates to projected subscriptions and costs for the proposed package under two possible prices

States of nature	Probability	Sales volume in units	
		Price of sh.1500	Price of sh.2000
Optimistic	0.3	18,000	14,000
Most likely	0.5	14,000	11,500
Pessimistic	0.2	9,000	6,000
Variable cost per unit	Sh. 900		
Fixed costs	Sh.325,000		

**Required: Prepare a Pay-off Matrix**

Advice on the best possible price to set for the package based on

- i. Maximax decision rule (2 marks)
- ii. Maximin decision rule (2 marks)
- iii. Laplace criterion of rationality (4 marks)
- iv. Minmax Regret Criterion (4 marks)

b) At the Board of Directors meeting, Macau, a logistics director argued that “Management Accounting is no different from Financial Accounting. Therefore, its installation, being a mere waste of resources, contravenes the primary goal of any firm which is maximization of profit.’

**Required:** Discuss the foregoing sentiments by Macau and by explaining FOUR differences between management accounting and Financial Accounting. (8 marks)

**QUESTION THREE**

a) The following information relates to the books of Juma during the three months ending 31<sup>st</sup> March 2024:

- (i) Sales in January amounted to Shs. 600,000 and are expected to increase by 25% each month. Terms of receipts indicate that 50% shall be received during the month of sale and the balance a month thereafter.

- (ii) Purchases are at 50% of sales. Half of the purchases are paid during the month and the balance the following month.
- (iii) Office equipment of Shs. 200,000 was purchased in February and was to be paid during the month of March.
  - Depreciation on this equipment is to be charged at 12% per annum.
  - The following expenses are incurred and paid for each month:

	Shs.
Salaries and wages	80000
Electricity	5000
Postage	2000
Rent	15000
Water	3000

**Required:**

Prepare a cash budget for the three months ending 31<sup>st</sup> March 2024. [12 marks]

b) The county government is contemplating on which projects to invest more funds in the financial years 2024/2025. The following income statement is provided below:

Details	Housing Sh.”m”	Markets Sh.”m’	Water Sh.”m’
Revenues	50	100	80
Variables cost	<u>(15)</u>	<u>(40)</u>	<u>(30)</u>
<b>Contribution</b>	<b>35</b>	<b>60</b>	<b>50</b>
Fixed costs	<u>(40)</u>	<u>(25)</u>	<u>(10)</u>
<b>Net profit/ (loss)</b>	<b><u>(5)</u></b>	<b><u>35</u></b>	<b><u>40</u></b>

**Required:**

Advice the county government on whether housing project should be discontinued (8 marks)

**QUESTION FOUR**

a) A company started its business in 2022. The following information was available for January to March 2022 for the company that produced a single product:

	Shs
Selling price per unit	100
Direct materials per unit	20
Direct Labour per unit	10
Variable factory overhead per unit	5
Fixed factory overhead per month	30000
Fixed selling overheads	1000
Variable selling overheads per unit	4

Budgeted activity was expected to be 1000 units each month Production and sales for FEB were as follows:

	Feb
Unit sold	800
Unit produced	1300

Required:

- i) Prepare absorption and marginal costing statements for the month 14 marks
- ii) Reconcile the profits under the two methods 4 marks
- iii) Explain why marginal costing is preferred for decision making 2 marks

**QUESTION FIVE**

- a) Explain the ways in which the attitudes and behavior of managers in an organization are liable to pose threat to the success of its budgetary control system 6 marks
- b) Explain FOUR major differences between Traditional and Strategic approaches to management accounting 8 marks
- c) Explain the importance of Budgets and budgeting in an organization 6 marks

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