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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATIONS, 2024/2025 ACADEMIC YEAR
FIRST YEAR, SECOND SEMESTER EXAMINATION
FOR MASTER IN BUSINESS ADMINISTRATION

KAC 3104 MANAGEMENT ACCOUNTING

Date: 14TH AUGUST, 2024
Time: 11:00 AM – 2:00 PM

INSTRUCTIONS TO CANDIDATES
ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER THREE QUESTIONS

QUESTION ONE: COMPULSORY (40 MARKS)

CASE STUDY
SAP AFRICA LTD
Top Management Crisis Meeting 17th June 2024

The CEO of Top Africa Ltd called a special meeting for all top managers to attend in order to resolve various urgent issues that had emerged in the recent past. It is one of those non-routine meetings requiring special decisions. The CEO emphasized that management accounting function should be strengthened. He got concerned with some ballooning balances of costs. Some members were asked on how they handle some costs when initiating the spending. Examples may include: Kshs 100,000 salary paid to a foreman in charge of sprite, fanta, coca cola in a factory; Kshs 20,000 Salary of specialized carpenter only for finishing up sofa sets in a workshop; Kshs 15,000 Wages for an office cleaner cleaning 3 sections producing marker pens, biro pens and pencils; Kshs 35,000 Electricity bill for five sections each producing a different product; Salary of a General manager at Kshs 200,000/= monthly in charge of a company producing ten products. There is great need of always being excellent in performance and at the very least breaking even.
The Finance Manager dwelt on getting the budget as close to reality as possible. The previous year's budgets have been way off the mark. He stated that there are many approaches to forecasting and essentially. For costs, $Y = a + bx$ is one of the functions to estimate costs. An example was given whereby the costs that do not change are Ksh.2,500,000/= and every additional unit zzz produced results in additional cost of Ksh 10/=. The manager also those in the receivables and payables sections to work closely and ensure no crisis emerges when commitments to various stakeholders fall due.

The Human Resource Manager informed the meeting that for the sake of improving performance, a seminar was being plan on decision making methodologies. The Finance Manager interjected and also emphasized on making decisions that are rational. He pre-empted that the company will soon decide whether to Expand or Not Expand into neighboring counties. If it expands, there is 50% chance of the national economy booming and therefore making a profit of Kshs 5,000,000/= OR 50% receding and resulting in a loss of Kshs 3,000,000/=. The same probabilities apply in the current corporate environment such that if the company does NOT take an Expansion Decision, it is expected to make a profit of Kshs 2,000,000 or loss of Kshs 1,000,000/= respectively. He implored all managers to ensure that they collectively assist to ensure the company gets it right.

Required:

a) Based on occasional issues of agency, explain the implications of non-routine decisions with illustrations **(5 Marks)**

b) From the challenges faced by the organization, outline the main objectives of managerial accounting **(5 Marks)**

c) Discuss the attributes of management accounting information system that would improve performance in the organization **(5 Marks)**

d) Outline the various costs within the organization based on the case **(5 Marks)**

e) By explaining the concept of cost function, forecast total costs if SAP Africa Ltd intends to produce and sell 10,000 units of zzzz product in 2025 **(5 Marks)**

f) Using the decision tree analysis method, advise SAP Africa Ltd on whether to expand or not **(5 Marks)**

g) Top Africa Ltd has to always focus on breaking even. Outline key assumptions of the Break-Even Model **(5 Marks)**

h) Commitments have to be met timely for the sake of forging strong partnerships in the business of SAP Africa Ltd. Explain components of a cash budget to ensure efficient operations by getting it right all the time **(5 Marks)**

QUESTION TWO:(20 MARKS)

Bokoli International Ltd has planned to sell product ``ngokho Bite`` in the Kenyan national market in every county at a selling price of sh.9 per unit. The variable cost is shs.5 per unit and the Total Fixed Cost is sh.2000

Required:

a) Compute the Break Even Point in units and in Kenya Shillings **(5 Marks)**

b) The company intends to make a profit before tax of 20% of sales, determine the number of units that must be sold **(5 Marks)**

c) Assume that the corporate tax rate is 30% and the company has a target profit of shs 1640 after tax. Compute the number of units that must be sold to earn this target profit. **(5 Marks)**

d) If the company expects to sale 600 units, compute the margin of safety. **(5 Marks)**

QUESTION THREE: (20 MARKS)

a) Kamukuywa Ltd is a company with many departments that produce products that become inputs for operations in others has approached you as a management consultant for critical insights on transfer pricing which is an enhancement in responsibility accounting. You are required to illustratively explain purposes of Transfer Pricing **(4 Marks)**

b) A carpentry workshop has hired ten workers to join five experienced staff in woodwork. The owner has secured an order that should be delivered on a weekly basis in the coming three months.

Required:

Explain how the `` Learning Curve`` concept is critical in enhancing revenues with a focus on cost control in planning **(4 Marks)**

c) Activity-based costing reports and analyzes past and current costs. Activity-based budgeting (ABB) focuses on the budgeted cost of activities necessary to produce and sell products and services. You are given the following information for two products a certain period:

	Product A	Product B
Units produced:	880	200
Labor-hours per unit:	3	3
Budgeted setup-hours:	5	5

Total budgeted machine setup related cost is $25,920 per month.

You are required to compute:

i.	Total budgeted labor-hours for product A and B	**(2 Marks)**
ii.	The allocation rate per labor-hour	**(2 Marks)**
iii.	Total cost allocated to each product line	**(2 Marks)**
iv.	Allocation rate per machine setup-hour	**(2 Marks)**
v.	Machine setup related costs are allocated to each product line	**(4 Marks)**

QUESTION FOUR: (20 MARKS)

a) In the business world, the concept of relevant costs in making non-routine decisions are common. You are informed that Kasuku Ltd makes four components and provided with the following information:

	W	X	Y	Z
Production (units)	1000	2000	4000	3000
Unit marginal costs:				
Direct material	4	5	2	4
Direct labour	8	9	4	6
Variable O/H	2	3	1	2
	14	17	7	12

Attribute Fixed Cost		Sh.	Sub contractor price:	Sh.
To	W	1000	W	12
	X	5000	X	21
	Y	6000	Y	10
	Z	8000	Z	14

Committed Fixed Costs are Sh.30000

Required: Advice the MD of Kasuku Ltd on the components to buy or make if any (**8 Marks)**

b) In any situation of decision making, the methodology is important to ensure rationality and hence effectiveness. In regard to Regina Ltd, the profit and loss figures (potential payoff) for the three products under the possible market conditions have been forecast as:

	Decision		
Event	Project A	Project B	Project C
Boom 60%	+8M	-2M	+16M
Steady State 30%	+1M	+6M	0
Recession 10%	-10M	+12M	-26M

Required:

i. Compute the Expected Monetary Value of each option **(4 Marks)**

ii. Advice on which project the company should project settled on **(2 Marks)**

iii. Comment on the Decision Criteria **(4 Marks)**

c) Explain why Scatter graph is not a good cost estimation technique **(2 Marks)**

<u>QUESTION FIVE: (20 MARKS)</u>

a) Oxfarm Sosio Kenya Ltd is considering whether to develop a new product or consolidate existing product. New product development can either be undertaken through thorough development at a cost of Shs.150,000 or through rapid development at a cost of Shs 80,000 while product consolidation can either be achieved through strengthening the products at a cost of shs 30,000 or through reaping the products at no extra cost.

The following are the expected outcomes, accompanying probabilities and the projected revenue for of the options.

	Thorough development			Rapid development			Strengthening product			Reaping product	
Outcomes	Good	mod	poor	good	mod	poor	good	mod	poor	good	poor
probabilities	0.4	0.4	0.2	0.1	0.2	0.7	0.3	0.4	0.3	0.6	0.4
Revenues	1000000	50000	2000	1000000	50000	2000	400000	20000	6000	20000	2000

<u>Required:</u>

Advice the Board of Directors of Oxfarm Sosio Kenya Ltd whether the firm should develop a new product or consolidate existing product? **(12 Marks)**

b) Explain purposes of various kinds of budgets within an organization **(8 Marks)**