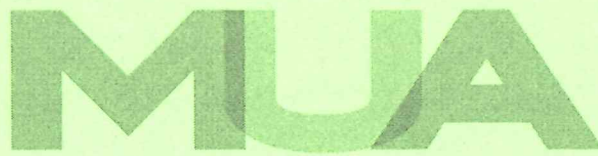


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**UNDERGRADUATE UNIVERSITY EXAMINATIONS**  
**SCHOOL OF MANAGEMENT AND LEADERSHIP**  
**DEGREE OF BACHELOR OF MANAGEMENT AND LEADERSHIP/**  
**BACHELOR OF COMMERCE**

**BML 108/ ACC 412/ BML 404: MANAGERIAL ACCOUNTING/ MANAGEMENT ACCOUNTING**

**DATE: 3<sup>RD</sup> APRIL 2024**

**DURATION: 2 HOURS**

**MAXIMUM MARKS: 70**

**INSTRUCTIONS:**

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided.**

**QUESTION ONE**

- a) If your goal is to be an effective manager, a thorough understanding of managerial accounting is essential. Explain the three key roles of a manager. **(3 Marks)**
- b) State three assumptions underlying Break-Even Analysis **(3 Marks)**
- c) You are the owner of a parasailing company that is expanding operations to a new beachfront location, and you need to prepare a 3-year analysis for the bank that may loan you the funds to purchase your boat and parasailing equipment. A lot of business is done on a referral basis, where a company pays a fee to a 3rd party to send them customers. However, because of your well-established reputation, you already have received requests for "flights" to be scheduled as soon as you open the new location. Therefore, you expect to break-even the first year but must calculate the number of flights needed. In Year 2, you believe will cost on average will be about 2% of the sales price. The following information is available:
- Sales price per flight \$175
  - Estimated loan payment per month \$350
  - Fuel costs per flight \$100
  - Full-time scheduler salary \$2,500 per month
  - Boat crew per flight \$30
  - \$500 per month dock fee and use of a small office on a pier

**Required:**

- i. Calculate the Year 1 and Year 2 break-even quantity, contribution margin, and contribution margin ratio. **(8 Marks)**
- ii. Determine the number of flights (units) needed to retain a profit of \$10,000 in Year 3, assuming the company does allow for referrals. **(2 Marks)**
- d) Assume that ABC Ltd is trying to set the selling price for one of its products and three prices are under consideration. These are Sh. 4, Sh. 4.30 & Sh. 4.40

The following information is also provided on the number of units that can be sold under each of the alternative prices:

Conditions/ Alternatives	Sh. 4.00	Sh. 4.30	Sh. 4.40
Best possible	16,000	14,000	12,500
Most likely	14,000	12,500	12,000
Worst possible	10,000	8,000	6,000

Fixed costs = Sh. 20,000  
variable cost per unit = Sh. 2

**Required:**

Advise the company on the best price to set. Using

- i. Maximin criterion (3 marks)
- ii. Expected Monetary Value (EMV) (3 marks)
- iii. Minimax Regret Criterion (3 marks)

**QUESTION TWO**

a) A business firm requires complete, accurate and updated information. A combination of both financial accounting and cost accounting systems can facilitate in the achievement of this goal.

**Required:**

- i. Distinguish between cost accounting and financial accounting. (4 marks)
  - ii. Describe five advantages of implementing a cost accounting system within an organization. (5 marks)
- b) Compare and contrast incremental budgeting and zero-based budgeting, highlighting their suitability in different organizational contexts. (6 marks)

**QUESTION THREE**

ABC Textile Company Limited aims to establish flexible budgets for its operating departments, with a distinct maintenance department responsible for routine and major repair tasks on 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. Below are maintenance costs incurred and actual machine hours worked during the months of August to November 2020:

Month	Machine hours in	Maintenance
	Production departments	department's Costs
		Sh.
August	320	140
September	480	140
October	160	60
November	640	220

**Required:**

- a) Determine the cost estimation function using:
- i High-low method. (4 marks)
  - ii Regression analysis (4 marks)
- b) Define queuing theory and discuss three applications in managerial decision-making, with a focus on optimizing service operations. Provide an example of a real-world situation where queuing theory can be applied for efficiency improvements. (7 Marks)

**QUESTION FOUR**

- a) Explain the concept of absorption costing and marginal costing and its implication for income statement preparation. (2 Marks)
- b) Discuss four differences between absorption costing and marginal costing approaches, particularly in the context of pricing decisions. (8 Marks)
- c) Material and meaningful variances that are investigated for further management action. List five considerations involved in the investigation. (5 Marks)

**QUESTION FIVE**

a) A manufacturing company has acquired new machine for producing product P at a rate of 25 units per hour with a 98% rate of efficiency. The company requires to produce at least 1800 units of P per day. The 10 old machines that the company has, produce 15 units of P with a 95% efficiency.

The cost of operating the new machine is Sh. 4 per hour and Sh. 3 per hour for the old ones. The cost incurred due to inefficiency is Sh. 2 per unit; It is government policy that at least 2 of the new machines must be indulged into production.

The company wishes to optimally allocate the machines in order to minimize the total manufacturing cost if the total available hours for production in a day are 8 hours. Using the linear programming, determine the cost minimizing units and plot the graph.

**(10 Marks)**

b) Describe three uses of Ratios in an organization giving an example of each.

**(5 Marks)****QUESTION SIX**

a) XYZ phone Company owns a mobile manufacturing plant in Kenya where its marginal tax rate is 55 per cent of net income. These phones are imported by Rwanda where the marginal tax rate is 65 per cent of net income. During the year, the company incurred production costs equivalent to sh.1 million in Kenya. Costs incurred in Rwanda aside from the costs of the phones amounted to an equivalent of sh.5 million. Sales revenues in Rwanda were sh. 20 million. (Assume that there are no currency controls and that tax regulations concerning between the two countries).

a) Compute the company's total tax liability in both countries be if it used the sh. 3 million transfer price. **(8 marks)**

b) Define the term "responsibility accounting" and explain three essential qualities of good managerial accounting information. **(7 marks)**

