The Management University of Africa

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POST GRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

MASTER OF BUSINESS ADMINISTRATION

MBA 507: MANAGERIAL ACCOUNTING

DATE: *28TH MARCH 2022*

DURATION: 3 HOURS

MAXIMUM MARKS: 60

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **FOUR (4)** questions.
4. Question **ONE is compulsory.**
5. Answer any other **TWO** questions.
6. Question **ONE** carries **30 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided**

QUESTION ONE

Read the Case Study below carefully and, answer the questions that follow:

MUA ENTERPRISE

Joe Bide started MUA Enterprise, a niche furniture brand, 10 years ago. He ran the business as a sole proprietorship. While he has 50 skilled carpenters and 5 salespeople on his payroll, he has been taking care of the accounting by himself. Now, he intends to offer 40% of the ownership to public in next couple years and is willing to make changes and has hired you as the management accountant to organize and improve the accounting systems.

MUA Enterprise's total budgeted manufacturing overheads cost for the current year is Kshs 5,404,639 and budgeted total labor hours are 20,000. Joe has been applying traditional costing method during the whole 10 years period and based the pre-determined overhead rate on total labor hours.

MUA Enterprise's sofa range includes the 2-set, 3-set and 6-set options. Kisaju Interiors recently placed an order for 150 units of the 6-set type. The order is expected to be delivered in one-month time. Since it is a customized order, Kisaju will be billed at cost plus 25%.

You are not a fan of traditional product costing systems. You believe that the benefits of activity-based costing system exceeds its costs, so you sat down with Carl Mutindi, the chief engineer, to identify the activities which the firm undertakes in its sofa division. Next, you calculated the total cost that goes into each activity, identified the cost driver that is most relevant to each activity and calculated the activity rate.

The results are summarized below:

Activity	A (in Kshs)	Relevant Cost Driver	B	C=A/B (in Kshs)
Production of components	2,313,132	Machine hours	25,000	93
Assembly of components	1,231,312	Number of labor hours	20,000	62
Packaging	213,123	Units	5,000	43
Shipping	231,230	Units	5,000	46
Setup costs	34,243	Number of setups	240	143
Designing	123,132	Designer hours	1,000	123
Product testing	24,234	Testing hours	500	48
Rent	1,234,233	Labor cost	Kshs1,645,644	75%

Once the order was ready for packaging, Carl gave you a summary of total cost incurred, and a statement of activities performed (also called the bill of activities) as shown below:

OrderNo:15X2013 Customer:KisajuInteriors Units:150 Type:6unit Amounts in Kshs		
Cost of direct materials		25,000
Cost of purchased components		35,000
Labor cost		15,600
Activity	**Relevant Cost Driver**	**Activity Usage**
Production of components	Machine hours	320
Assembly of components	Number of labor hours	250
Packaging	Units	150
Shipping	Units	150
Setup costs	Number of setups	15
Designing	Designer hours	70
Testing	Testing hours	22
Rent	Labor cost	4500

Required:

i. Applying Traditional Costing System, Calculate the total cost of the order and the invoice value of the order based on traditional costing system. **(10 Marks)**

ii. Calculate the order cost using activity-based costing. **(10 Marks)**

iii. Examine any five reasons why a company considers zero-based budgeting **(10 Marks)**

QUESTION TWO

i. Discuss Steps in implementing a target costing system **(7 Marks)**

ii. Monthly Production Costs for Bikes Unlimited

Reporting Period (Month)	**Total Production Costs**	**Level of Activity (Units Produced)**
July	Ksh 230,000	3,500
August	250,000	3,750
September	260,000	3,800
October	220,000	3,400
November	340,000	5,800
December	330,000	5,500
January	*200,000*	*2,900*
February	210,000	3,300
March	240,000	3,600
April	*380,000*	*5,900*
May	350,000	5,600
June	290,000	5,000

Use High and Low Method to estimate total fixed cost and per unit variable cost **(8 Marks)**

QUESTION THREE

A) Describe the five phases of Six Sigma **(6 Marks)**

B) Discuss any five benefits of Environmental Management Accounting, **(5 Marks)**

C) South C Outfitters has the following direct labor standard for its uniform

1.2 standard hours per uniform at Ksh 10.00 per hour

Last month, employees actually worked 2,500 hours at a total labor cost of Ksh 26,250 to make 2,000 uniforms

Determine:

i) Labor Rate Variance **(2 Marks)**

ii) Labor Efficiency Variance **(2 Marks)**

QUESTION FOUR

A) Discuss why would the cost behavior change outside of the relevant range of activity? **(5 Marks)**

B) You have been asked to provide budgetary information to the board of Directors for a meeting where they will decide the pricing of an important product for the next period.

The following information is available from the records:

	Last year		**This year**
	$000		$000
Sales (100,000 @ $13)	1,300	Sales (106,000 @ $13)	1,378
Costs	1,000	Costs	1,077.4
Profit	300	Profit	300.6

You find that between the previous and current periods there was a 4% general inflation rate and it is forecast that costs will further increase by 6% in the next period.

The firm did not increase the selling price in the current period although competitors raised their prices by 4% to allow for the increased costs.

A survey by economic consultants was commissioned and has found that the demand for the product is elastic with an estimated price elasticity of demand of 1.5. This means that volume will fall by one and a half times the rate of real price increase.

Required:

i. Show the budgeted position if the firm maintains a Ksh 13 selling price for the next period (when it is expected that competitors will increase their prices by 6%) **(5 marks)**

ii. Show the budgeted position if the firm increases its prices by 6% **(3 marks)**

iii. Write a short report to the Board, with appropriate figures, recommending whether the firm should maintain the Ksh 13 selling price or raise it by 6% **(2 marks)**