The Management University of Africa

MUA

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POST GRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF MASTER OF BUSINESS ADMINISTRATION

MBA 507: MANAGERIAL ACCOUNTING

DATE: 2ND DECEMBER 2024

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

A. As organizations become larger and more complex, it is no longer possible for just one person to prepare a budget. Instead, budgeting across the organization must be carefully coordinated among various actors. As a result, there is the need for a budget manual irrespective of the type of or approach to budgeting.

Required:

Discuss FIVE (5) contents of a budget manual. **(5 marks)**

B. Machiko Ltd, a newly established manufacturing company with branches across Africa is preparing its first annual budget. The following information is relevant:

Sales forecast for each month:

January to June KSH20,000

July to December (and thereafter) KSH22,000

Gross profit margin 20%

Credit given to customers 2 months

Credit taken from suppliers 2 months

Closing inventory 3 months of demand

Monthly operating expenses KSH1,222

At the start of the budget period, a non-current asset with cost KSH120,000 and useful life of 6 years was purchased and transferred to one of its branches. In addition, a cash amount of KSH80,000 was provided for the operations of Machiko Ltd.

Required:

Prepare the budgeted statement of profit or loss and budgeted statement of financial position for Machiko Ltd. **(10 marks)**

C. Management accounting can be described as the process of supplying the managers and employees in an organization with relevant information, both financial and non-financial, for making decisions, allocating resources, monitoring, evaluating, and rewarding performance.

Required:

In relation to the description of management accounting provided above:

State THREE (3) important changes that have taken place in the business environment that have influenced management accounting practice. **(3 marks)**

D. Financial Accounting and Management Accounting share important similarities since both are based on financial information and other quantitative information about business operations.

However, they differ in many ways.

Required:

Differentiate between financial accounting and management accounting.

(4 marks)

E. Spreka body lotion is a product produced from the combination of two materials: Sprekese and Kaduro. Spreka body lotion has a standard direct material cost as follows:

Sprekese (6 kilograms @ KSH15 per kilogram) KSH90

Kaduro (10 kilograms @ KSH10 per kilogram) KSH100

During period one, 1,000 units of Spreka body lotion were manufactured, using 11,700 kilograms of Sprekese and 10,000 kilograms Kaduro costing KSH 98,600 and KSH 78,000 respectively.

Required:

Calculate the following variances for Sprekese and Kaduro:

i. The direct material price variance **(2.5 marks)**

ii. The direct material usage variance **(2.5 marks)**

F. Benchmarking helps to highlight what it will take for a company to enhance its operations in order to become competitive in an industry.

Required:

Explain THREE (3) requirements of successful benchmarking. **(3 marks)**

QUESTION TWO

A) Aframedik Ltd has just introduced a standard marginal costing system to assist in the planning and control of the production activities for its single product, Amino. The system became operational on 1 January 2022. The Functional Director responsible for cost and management accounting had a discussion with the Production Manager and both have agreed on the following standard cost information to manufacture one unit of product, Amino.

Budgeted cost:

Direct materials: 4kg @ KSH1.75per kg

Direct labour: 2 hours @ KSH10 per hour

Variable overhead: 2 hours @ KSH8.25 per hour.

Actual Results:

The actual results for January 2022 are as follows:

Sales 22,000 units yielding a total revenue of KSH1,276,000

Production 23,000 units

Direct Materials 90,000 kgs at a cost of KSH162,000

Direct labour 48,000 hours at a cost of KSH576,000

Variable overhead KSH350,000

The budgeted level of production and sales activity has been agreed with both production

managers and sales staff at 24,000 units per month.

Required:

Calculate the following variances.

i) Direct Material Price

ii) Direct Material Usage

iii) Direct Labour Rate

iv) Direct Labour Efficiency

v) Variable Overhead Efficiency **(10 Marks)**

B) The cost-volume-profit (CVP) analysis, also commonly known as breakeven analysis, looks to determine the breakeven point for different sales volumes and cost structures, which can be useful for managers making short-term business decisions. For CVP analysis to be effective, several assumptions are usually made.

Required:

Demonstrate FOUR (4) assumptions underlying cost volume profit (CVP) analysis

(5 marks)

QUESTION THREE

Total production costs each week in a production department have been measured for the past five weeks, as follows.

WEEK	UNITS PRODUCED	TOTAL COST (KSHS 000)
1	5	20
2	9	27
3	4	17
4	5	19
5	6	23

i) Use linear regression analysis to obtain an estimate of fixed costs per week and the variable cost of production per unit. **(8 marks)**

ii) Use your results to estimate total costs in a week when 8 units are produced.

(3 marks)

iii) Explain why regression analysis method of separating cost is considered more accurate than high-low method. **(4 marks)**

QUESTION FOUR

A) Enumerate FOUR (4) types of information which could be obtained from the cost and management accounting system which cannot be obtained from the current system. **(4 marks)**

B) In 2020 Chrysler Corporation found itself in a very unhappy financial situation. Profits were down, cash flow was tight, and the stock was trading at a low price of Ksh10 per share. The Japanese auto industry posed a serious threat. Despite a strong Yen, they had captured and continued to preserve a healthy share of the U.S. auto market. Chrysler management decided it was time to change their approach to new car design. They adopted a competitive weapon that the Japanese auto industry had used for many years called target costing. Target costing was applied to all product development efforts in the Company including the NEON, a new small car developed for the lower price range. A price and profit target were set for the car and it was then designed to meet that profit without sacrificing major customer requirements. The results of using target costing on the NEON were impressive. The NEON:

- Provided dual airbags and a powerful engine for a small car.
- Was named" Auto of the Year" in 2024.
- Had a relatively short development time going from product concept to market in 31 months.
- Came in below its project development and investment budget.
- Is one of a handful of small cars made in the USA that makes a positive return.

- Is environmentally friendly built using a recyclable facia and non-toxic materials.

Since the introduction of target costing, Chrysler's profits have increased significantly. Its share price went up from Ksh10 per share in 2020 to Ksh54 per share in 2025.

Assume that you worked for Chrysler in 2020 and were assigned to the development team for the

Neon project. This project was developed under the target costing approach rather than the traditional cost-plus approach. Answer the following questions regarding the development of the Neon car. Be creative, using your knowledge of cars in general, in answering the questions. You should provide car specific examples.

Required:

Identify the seven steps in the establishment phase of target costing. Provide specific examples of activities undertaken for each of the seven steps.

(7 Marks)

C) Illustrate how environmental management accounting (EMA) differs from traditional management accounting? **(4 Marks)**