

**MAASAI MARA UNIVERSITY**

**REGULAR UNIVERSITY EXAMINATIONS**

**2016/2017 ACADEMIC YEAR**

**THIRD YEAR FIRST SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

**THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM BTM 314**

**COURSE TITLE: MANAGERIAL ACCOUNTING FOR DECISION MAKING**

**DATE: 1st February 2017 Time: 11.00 – 1.00pm**

**INSTRUCTIONS**

Answer Question **ONE** and other **THREE** questions.

**QUESTION ONE (25 MARKS - COMPULSORY)**

The information given below is in respect of the proposed budget for K.K. Ltd for the six months ending 31 December 2016.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Month** | **Sales**  **Sh ‘000’** | **Material Purchases** | **Wages**  **Sh. ‘000’** | **Production Overheads**  **Sh. ‘000’** | **Administrative Overheads**  **Sh. ‘000** |
| July | 72,000 | 25,000 | 10,000 | 6,000 | 5,500 |
| August | 97,000 | 31,000 | 12,100 | 6,300 | 6,700 |
| September | 86,000 | 25,500 | 10,600 | 6,000 | 7,500 |
| October | 88,600 | 30,600 | 25,000 | 6,500 | 8,900 |
| November | 102,500 | 37,000 | 22,000 | 8,000 | 11,000 |
| December | 108,700 | 38,800 | 23,000 | 8,200 | 11,500 |

**Additional information**

1. A depreciation expense is expected to be 0.5% of sales.
2. Expected cash balance in hand on 1 July 2016 is Sh. 72,500,000.
3. 50% of total sales are cash sales/
4. Assets are to be acquired in the months of August and October at Sh.8,000,000 and Sh.25,000,000 respectively.
5. An application has been made to the bank for the grant of a loan of Sh.30,000,000 and it is hoped that it will be received in the month of November
6. It is anticipated that a dividend of Sh.35,000,000 will be paid in December
7. Debtors are allowed one month’s credit
8. Creditors for materials purchases and overheads grant one months credit
9. Sales commission at 3% on sales is paid to the salesmen each month.

**Required**

A cash budget for the six months ending 31 December 2016. **(Total 25 marks)**

**QUESTION TWO**

Jamline Ltd, which manufactures and sells a single product, is currently producing and selling 102,000 units per month, which represents 85% of its full capacity. Total monthly costs are £619,000 but at full capacity these would be £700,000. Total fixed costs would remain unchanged at all activity levels up to full capacity. The normal selling price of the product results in a contribution to sales ratio of 40%.

A new customer has offered to take a monthly delivery of 15,000 units at a price per unit 20% below the normal selling price. If this new business is accepted, existing sales are expected to fall by one unit for every six units sold to this new customer.

**Required:**

(a) For the current production and sales level, calculate:

(i) The variable cost per unit; **(3mks)**

(ii) The total monthly fixed costs; **(3mks)**

(iii) The selling price per unit; **(3mks)**

(iv) The contribution per unit.  **(3mks)**

(b) Calculate the net increase or decrease in monthly profit which would result from acceptance of the new business. **(3mks)**

**QUESTION THREE**

P. Muli was recently appointed to the post of investment manager of Masada Ltd. a quoted company. The company has raised Sh.8,000,000 through a rights issue.

P. Muli has the task of evaluating two mutually exclusive projects with unequal economic lives. Project X has 7 years and Project Y has 4 years of economic life. Both projects are expected to have zero salvage value. Their expected cash flows are as follows:

|  |  |  |
| --- | --- | --- |
| **Project**  **Year** | **X**  **Cash flows (Sh.)** | **Y**  **Cash flows (Sh.)** |
| 1  2  3  4  5  6  7 | 2,000,000  2,200,000  2,080,000  2,240,000  2,760,000  3,200,000  3,600,000 | 4,000,000  3,000,000  4,800,000  800,000  -  -  - |

The amount raised would be used to finance either of the projects. The company expects to pay a dividend per share of Sh.6.50 in one year’s time. The current market price per share is Sh.50. Masada Ltd. expects the future earnings to grow by 7% per annum due to the undertaking of either of the projects. Masada Ltd. has no debt capital in its capital structure.

**Required:**

(a) The net present value of each project. **(10 marks)**

(b) Explain five advantages of the Net Present Value (NPV) method of Project Appraisal

**(5 Marks)**

**(Total: 15 marks)**

**QUESTION FOUR**

Write in details about each of the following giving relevant examples in each case:

1. Meaning and importance of Environmental Accounting **(8 marks)**
2. Meaning and classifications of Social Responsibility (**7 marks)**

**QUESTION FIVE**

Write in details about each of the following;

1. Importance of managerial accounting to an organization **(5 marks)**
2. Distinguish between Managerial Accounting and Financial Accounting **(5 marks)**
3. Limitations of managerial accounting **(5 marks)**