# MACHAKOS UNIVERSITY

**University Examinations for 2018/2019 Academic Year**

**SCHOOL OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ACCOUNTING, BANKING AND FINANCE**

**FIRST YEAR SECOND SEMESTER EXAMINATION FOR**

**MASTER OF BUSINESS ADMINSTRATION**

**BAC 815: MANAGEMENT ACCOUNTING:**

**DATE: 15/5/2019** **TIME: 9.00-12.00 PM**

**INSTRUCTIONS**

***Answer question ONE and any other THREE questions***

**QUESTION ONE**

Jones Dairy Ltd (Jones) operates a 'doorstep' fresh milk delivery service. Two brothers carry on the business that they inherited from their father in the early 1960s. They are the business's only directors. The business operates from a yard on the outskirts of Trepont, a substantial town in mid-Wales.

Jones expanded steadily from when the brothers took over until the early 1980s, by which time it employed 25 full-time rounds staff. This was achieved because of four factors: (i) some expansion of the permanent population of Trepont, (ii) expanding Jones's geographical range to the villages surrounding the town, (iii) an expanding tourist trade in the area and (iv) a positive attitude to 'marketing'.

As an example of the marketing effort, when new residents move into the area, the member of the rounds staff concerned reports this back. One of the directors immediately visits the potential customer with an introductory gift, usually a bottle of milk, a bottle of wine and a bunch of flowers, and attempts to obtain a regular milk order. Similar methods are used to persuade existing residents to place orders for delivered milk.

By the mid 1980s Jones had a monopoly of doorstep delivery in the Trepont area. A combination of losing market share to Jones and the town's relative remoteness had discouraged the national doorstep suppliers. The little, locally-based competition there once out of business.

Supplies of milk come from a bottling plant, owned by one of the national dairy businesses, which is located 50 miles from Trepont. The bottlers deliver nightly, except Saturday nights, to Jones's depot. Jones delivers daily, except on Sundays. Profits, after adjusting for inflation, have fallen since the early 1980s. Sales volumes have fallen by about a third, compared with a decline of about 50 per cent for doorstep deliveries nationally over the same period. New customers are increasingly difficult to find, despite a continuing policy of encouraging them. Many existing customers tend to have less milk delivered.

A sufficient profit has been made to enable the directors to enjoy a reasonable income compared with their needs, but only by raising prices. Currently Jones charges 40p for a standard pint, delivered. This is fairly typical of doorstep delivery charges around the UK. The Trepont supermarket, which is located in the centre of town, charges 26p a pint and other local stores charge between 35p and 40p.

Currently Jones employs 15 full-time rounds staff, a van maintenance mechanic, a secretary/bookkeeper and the two directors. Jones is regarded locally as a good employer. Regular Employment opportunities in the area are generally few. Rounds staff is expected to, and generally do, give customers a friendly, cheerful and helpful service.

The two brothers continue to be the only shareholders and directors and comprise the only level of management. One of the directors devotes most of his time to dealing with the supplier and with issues connected with details of the rounds. The other director looks after administrative matters, such as the accounts and personnel issues. Both directors undertake rounds to cover for sickness and holidays.

**Required:**

a) As far as the management information given in the question will allow, undertake an analysis of the strengths, weaknesses, opportunities and threats (a SWOT analysis) of the business. (16 marks)

b) Briefly and clearly explain the historical origin of costs. (9 marks)

**QUESTION TWO**

a) In his research on "the impact of budgets on people" Christopher Argyris reported the following comment by a financial controller on the practice of participation in setting budgets in his company: "we *bring in the section heads and supervisors to of budget areas, we tell them that we want their frank opinion, but most of them just sit there and node their heads. We know they are not coming out exactly what they feel. I think budgets scare them."*

**Required**.

Discuss why managers may be reluctant to participate fully in setting budgets indicating the negative side effects which may arise from the imposition of budgets by senior management. (10 marks)

b) A recent critic has suggested that budgets should be abolished because they introduce rigidity and hinders creativity. Discuss (6 marks)

c) Traditional budgeting systems are incremental in nature and tend to focus on cost centres. Activity based budgeting (ABB) links strategic planning to the overall performance measurement aimed at continuous improvement.

**Required:**

i. Explain the weaknesses of traditional incremental budgeting systems. (4 marks)

ii. Describe the main features of activity budgeting system and comment on its advantages. (5 marks)

**QUESTION THREE**

a) Discuss FOUR main factors that influence the pricing decision of a company. (10 marks)

b) Candidly explain the following terms:

i) Overhead cost allocation

ii) Overhead costs apportionment

iii) Overhead costs absorption (9 marks)

c) Explain THREE main differences between traditional absorption costing and activity based costing. (6 marks)

**QUESTION FOUR**

a) Distinguish between Management Accounting and Management Accounting Information (6 marks)

b) Management Accounting has been described as "the eyes and ears of Management". Explain the meaning of this expression means? (3 marks)

**Required:**

i) Identify the main users of management accounting information of a University. (6 marks)

ii) For what purposes would different User groups need management information? (6 marks)

iii) Do these Users in (ii) above differ much from the Users of management accounting information for private sector businesses? (4 marks)

**QUESTION FIVE**

a) Cottage Industries specialises in making baskets. The fixed costs of operating the workshop for a month total kes 50,000.00. Each basket requires materials that cost kes 200.00. Each basket takes one hour to make, and the business pays the basket makers kes1, 000 an hour. The basket makers are all on contract such that if they do not work for any reason, they are not paid. The baskets are sold to a wholesaler for kes1, 400.00.each.

**Required**

Determine the breakeven point (BEP) for basket making for the business? (6 marks)

b) Referring to the breakeven formula, explain the term contribution margin. (6 marks)

c) Explain the term contribution margin ratio. (6 marks)

d) Explain the concept of operation gearing. (7 marks)