



MURANG'A UNIVERSITY OF TECHNOLOGY

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF HUMAN RESOURCE

UNIVERSITY POSTGRADUATE EXAMINATION

2017/2018 ACADEMIC YEAR

**FIRST YEAR FIRST SEMESTER EXAMINATION FOR MASTER OF
BUSINESS ADMINISTRATION**

BCA 601: MANAGERIAL ACCOUNTING

DURATION: 3 HOURS

DATE: 4TH MAY, 2018

TIME: 9.00 A.M. – 12.00 NOON

Instructions to Candidates:

1. Answer **Question One (1)** and **any Three** questions.
2. Mobile phones are not allowed in the examination room.
3. You are not allowed to write on this examination question paper.
4. All workings must be shown clearly.

QUESTION ONE (Compulsory)

The general manager of A Ltd submits the following statements to the board for consideration

Statement of financial position as at 31.12.17

	A Ltd	B Ltd
Inventory	8,000,000	5,000,000
A/c receivables	6,000,000	4,000,000
Cash	1,000,000	1,000,000
Land	6,000,000	3,000,000
Plant	3,000,000	1,500,000
Vehicles	<u>1,000,000</u>	<u>500,000</u>
	<u>24,000,000</u>	<u>15,000,000</u>
Equity capital @ 10%	10,000,000	8,000,000
Retained earnings	2,000,000	1,000,000
10% Debt	5,000,000	3,000,000
Trade Creditors	4,000,000	2,000,000
A/Cs payables	<u>3,000,000</u>	<u>2,000,000</u>
	<u>24,000,000</u>	<u>15,000,000</u>

Statement of comprehensive income for the period ending 31.12.17

	A Ltd	B Ltd
Sales	34,500,000	17,000,000
Cost of goods sold	<u>27,600,000</u>	<u>13,600,000</u>
Cr. Profit	<u>6,900,000</u>	<u>3,400,000</u>
Operating expense	2,000,000	1,000,000
Interest	700,000	420,000

Additional expenses:

- i. Assume that tax rate is 50%

	A Ltd	B Ltd
ii. Market price per share	400	1,500
iii. No. of equity shares	1,000,000	800,000
iv. Dividend pay out ratio	30%	40%

The two companies are in the process of negotiating a merger through an exchange of equity shares. You have been therefore asked to assist in establishing equitable exchange terms and specifically required to:

- i. Analyse the share prices of both the companies into EPs and P/E components (5 marks)
- ii. Segregate their EPS figures into Return On Equity (ROE) and bank value per shares components (5 marks)
- iii. Estimate future EPS growth rates for each firm (5 marks)
- iv. Based on expected operating synergies, A Ltd estimates that the value of B Ltd's shares would be Sh.200 per share on its acquisitions.

Required:

- (a) Develop a range of justifiable share exchange ratios that can be offered by A Ltd to B Ltd's shareholders (5 marks)
- (b) Based on your analysis in I, ii, iii above would you expect the negotiated terms to be closer to the upper limit or the lower exchange ratio limits? Why? (5 marks)

QUESTION TWO

- (a) Discuss four limitations of the use of ratio analysis as a basis of financial analysis in management accounting (8 marks)
- (b) Explain the significance of ratio analysis in management accounting (7 marks)

QUESTION THREE

The Production manager of a company is concerned by the apparent fluctuations in efficiency and wants to determine how labour costs are related to volume. The following data is presented regarding the most recent 12 weeks:

Week	Units Produce	Labour Costs
1	34	340
2	44	346
3	24	287
4	36	262
5	30	220
6	49	416
7	39	337
8	21	180
9	41	376
10	47	295
11	34	215
12	24	275

Required:

Estimate the cost functions using

- i. High low method (8 marks)
- ii. Regression analysis (7 marks)

QUESTION FOUR

The following data was extracted from financial reports of a company

Year	Loss/Profit	Sales
	- 100,000	1,900,000
	+ 100,000	2,600,000

Required:

- i. P/V ratio (3 marks)
- ii. BEP (3 marks)
- iii. Variable cost (3 marks)
- iv. Margin of safety (3 marks)
- v. Sales required to earn a profit of Sh.1,200,000 (3 marks)

QUESTION FIVE

- (a) Explain the three methods used in financial forecasting in management accounting (10 marks)
- (b) Discuss the process of management accounting in the process of management (5 marks)