



KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2010/2011

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF
SCIENCE (AGRIBUSINESS MANAGEMENT AND TRADE)

KBT 311: AGRIBUSINESS MANAGEMENT ACCOUNTING

DATE: MONDAY, 4TH APRIL 2011

TIME: 11.00 A.M. - 1.00 P.M.

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION **ONE** AND **TWO** OTHER QUESTIONS

QUESTION 1 (40 marks)

- a. Write short notes on the following
 - i. Risk seeking
 - ii. Risk neutral
 - iii. Risk averse
 - iv. Return on investment
 - v. Value added statements

[10 Marks]
- b. Clearly discuss the steps of developing a cost estimating relationship

[8 Marks]
- c. Enumerate the assumptions required to carry out Cost-Volume-Profit analysis

[8 Marks]
- d. Discuss the advantages and disadvantages of Bulk procurement

[6 Marks]
- e. List and explain the advantages and disadvantages of participatory budgeting

[8 Marks]

QUESTION 2 (15 Marks)

Assume that Kenyatta University Dairy plant Ltd is trying to set the selling price for one of its Yoghurt products and three prices are under consideration. These are Kshs.50, Kshs.53 and Kshs.55. The following information is also provided

Alternatives			
Conditions	Kshs.50	Kshs.53	Kshs.55
	Units/packages		
Best possible	10,000	9,100	8,000
Most likely	8,000	7,400	7,000
Worst possible	4,697	4,100	3,800

Fixed costs = Sh. 108,000

Variable cost per unit = Sh. 27

Required:

Advise the company on the best price to set based on.

- a. Maximax decision rule
- b. Maximin decision rule

- c. Laplace Criterion of Rationality
- d. Minimum regret criterion

[15 Marks]

QUESTION 3 (15 marks)

The production manager of Delmote Ltd. is concerned about the apparent fluctuation in efficiency. He hires you as a consultancy to determine how labour costs (in Kshs.) are related to volume. She presents you the following data of the 15 most recent weeks

Week No.	Units Produced(X)	Labour Costs(Y)
1	39	350
2	49	356
3	29	297
4	39	230
5	58	425
6	48	347
7	30	190
8	50	386
9	56	305
10	33	285
11	34	286
12	37	291
13	42	307
14	39	297
15	51	413

She requires you to:

- i. Estimate the cost function using:
 - a. The high low method
 - b. Regression analysis
- ii. Forecast the labour costs if the plant intends to produce 35 and 45 units the next period.

[15 Marks]

QUESTION 4 (15 marks)

- a. Assume a wholesaler has to supply his customer with 100,000 units of a given product every year. Assuming that demand is fixed and known. Further assume the cost of placing each order is Kshs 2.40 while the holding cost per unit is Kshs. 1.20. Determine the optimum order size using the basic EOQ model and total costs incurred at optimum order size.

[6 Marks]

- b. Assume the Kenyatta University Dairy Plant Ltd purchases a raw material from an outside supplier at cost of Kshs. 16 per unit. Assume total annual demand for the product is 20,000 units and the holding cost is Kshs. 3 per unit and the

ordering cost is Kshs. 7 per order. Further assume a quantity discount of 3% of the purchase price is available for orders in excess of 1,000 units. You are required to advise the management on the appropriate inventory policy:

Hint.

- a. Calculate the EOQ and the associated costs.
- b. Calculate the total costs if the company purchased in batches of 1,000.

[9 Marks]