Kasarani Campus
Off Thika Road
Tel. 2042692 / 3
P. O. Box 49274, 00100
NAIROBI
Westlands Campus
Pamstech House
Woodvale Grove
Tel. 4442212
Fax: 4444175

KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2019/2020 ACADEMIC YEAR
SECOND YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

KAC 102: INTRODUCTION TO MANAGEMENT ACCOUNTING

Date: 12th April, 2019
Time: 11.00am – 1.00pm

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

a) Discuss five limitations of Management Accounting (5 Marks)

b) Mk Ltd has two divisions; M and K. Each of the two divisions produces a single product whose unit costs are as follows:

Division	**M (Shs)**	**K (shs)**
Direct Material	40	230
Direct Labour	20	30
Variable overheads	40	120
Fixed Overheads	40	120
Selling and packaging (variable)	10	10
Transfer in cost (from division M)	-	290
	150	**800**

Additional Information

1. Annually, 10,000 units of division M's product are sold externally at a standard price of shs 300 while 5000 units are transferred to Division K at shs 290 after deducting the selling and packaging expense which is not incurred during internal transfers.
2. A recent study of the demand and sales relationship of the company's product by the sales division of the company produced the following results:

Division M			
Selling Price (shs)	200	300	400
Demand (Units)	15,000	10,000	5000
Division K			
Selling Price (shs)	800	900	1000
Demand (units)	7,200	5,000	2,800

3. The manager of division K has suggested that transfer from Divison M should be made at shs 120 which represents the variable costs plus a minimum mark-up since Division K is taking out put that division M would not be able to sell externally at a price of shs 300. He also explains that this would lead to improved profitability of the company.

Required

a) The effect of the current transfer price of the company's profits (10 Marks)

b) The effect of adopting Division K Manager's proposed transfer price on the profitability of the company (5 Marks)

c) Explain four limitations of Cost Volume Profit analysis (C.V.P) (4 Marks)

d) Discuss the Decision making model under conditions of uncertainity (6 Marks)

QUESTION TWO (20 MARKS)

a) Explain three methods of cost classification giving examples in each case. (6 Marks)

b) The following data relates to Nyota Ltd which processes a single data type of chemical. Overhead costs for processing is as follows.

Period	**(x) Output Unit (000)**	**(Y) Overhead costs Shs (000)**
1.	120	770
2.	150	820
3.	160	810
4.	170	830
5.	200	960
6.	170	900
7.	200	940
8.	200	950
9.	180	940
10.	160	870
11.	140	800
12.	150	820
13.	140	790
	2140	**11200**

Required: Estimate a cost estimation function using regression 10 Marks)

c) State two differences between Management Accounting and Financial accounting (4 Marks)

QUESTION THREE (20 MARKS)

a) The management Accountant of ABC Ltd; made the following analysis of costs incurred to produce 100,000 units

Cost Element	Amount (shs)
Direct Materials	400,000
Direct Labour	500,000
Depreciation	100,000
Rent	300,000
Repairs and Sales Promotion	600,000 (1/3 fixed)
Electricity and Water	200,000 (50% variable)

Required

i) Determine the variable cost per unit. (5 Marks)
ii) Derive the total cost function (2 Marks)
iii) Estimate the total cost, if 150,000 units are expected to be produced during the next financial year. (2 Marks)

b) Differentiate between risk and uncertainly (4 Marks)

c) Explain the term "decentralization" Discuss reasons why companies need to decentralize their operations. (7 Marks)

QUESTION FOUR (20 MARKS)

a) "Budgetary control can be operated even without adoption of standard costing"

Required

Explain both budgetary control and standard costing and show how the former is not dependent on the latter (10 Marks)

b) Given the following information .
Standard rate per hour sh 8
Standard time per unit $2^1/_2$ hours
Time worked 42000 hours
Time paid at Shs 9 per hour 50000 hours
Production achieved 18000 units

Required

Compute:
i) Labour Rate variance (2 Marks)
ii) Labour efficiency variance (2 Marks)
iii) Idle time variance (2 Marks)

c) The Material standard for one unit of product "N" is 2 tonnes at shs 150 per tone.. 11000 tones were used at a cost of shs 1,760,000 and 6000 units were produced

Required

Material cost variance (4 Marks)

QUESTION FIVE (20 MARKS)

a) A company is considering whether to develop and market a new product. Development costs are estimated to be Shs 180,000 and there is a 0.75 probability that the development effort will be successful and a 0.25 probability that the development effort will be unsuccessful. If the development is successful the product will be marketed, and it is estimated that:-

i) If the product is very successful profits will be Shs 540000

ii) If the product is moderately successful profits will be Shs 100000

iii) If the product is a failure, there will be a loss of Shs 400000

Each of the above profit and loss calculations is after taking into account the development costs of sh 180,000. The estimated probabilities of each of the above events are as follows:

i) Very successful 0.4

ii) Moderately successful 0.3

iii) Failure 0.3

Required: Use a decision tree to compute the expected payoffs (10 Marks)

b) A company makes a single product with a sales price of sh 10 and a marginal cost of sh 6. Fixed costs are shs 60,000 per annum
Calculate

i) Number of units to break even (2 Marks)

ii) Sales at break- even point (2 Marks)

iii) Number of units will need to be sold to achieve a profit of sh 20000 p.a (2 Marks)

iv) If the taxation rate is 40% how many units will need to be sold to make a profit after a tax of Sh 20,000 p.a (4 Marks)