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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY

UNIVERSITY EXAMINATION, 2019/2020 ACADEMIC YEAR
THIRD YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 6th December, 2019
Time: 8.30am – 10.30am

KAC 301 - ADVANCED MANAGEMENT ACCOUNTING

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE(30 MARKS)

a) With relevant example define sunk costs and explain their relevance in managerial decision making. (6 Marks)

b) Give three reasons why organizations are increasingly adopting responsibility accounting. (6 Marks)

c) Explain any three different approaches to pricing. (6 Marks)

d) A company has three divisions which deal with different product lines and each has costs as follows

	Div A	Div B	Div c
Selling price	480	560	580
Variable costs	280	310	440

In addition to the above costs the company has fixed costs that may relate to a department on its own or shared among the three departments. In the month of December the company produced and sold 100,000 220,000 and 180,000 respectively. The fixed costs for individual departments amounted to ksh 12,500,000, 32,000,000 and 23,500,000 for the three divisions respectively. In addition fixed costs that were to be shared among the divisions amounted to ksh 33,000,000 which were to be shared at the ratio of 3:2:1.

Required:

i) Calculate the profitability per division in that month. (8 Marks)

ii) One of the managers is proposing that Division c be shut due to loss making. What is your position? Explain. (4 Marks)

QUESTION TWO (30 MARKS)

a) Explain any three benefits you would associate with CVP Analysis in an organization. (6 Marks)

b) Differentiate between stepped costs and variable costs. (4 Marks)

c) A company has fixed costs of Ksh 12,520,000 and variable costs of ksh 46 per unit. Due to the stiff competition that is prevailing the management is considering a different approach to operations and a number of options have been advanced as follows;

   i) The company can consider automation which will mean that the fixed costs grow by 28% while the variable costs go down by 22% or

   ii) The company can choose to reduce the fixed costs by 20% but this is likely to see the variable costs go up by 14 shillings.

   Assuming that the selling price has been constant at 75 shillings and is expected to remain at that level what option would you advice the company to take? (10 Marks)

QUESTION THREE (30 MARKS)

a) Discuss the role of management accounting in the management process. (6 Marks)

b) Differentiate between absorption and variable costing. (4 Marks)

c) Auto Robot Ltd which manufactures two products P & Q has provided the following information.

	P (shs)	Q (shs)
Selling price per unit	100	120
Variable cost per unit	45	80
Fixed cost	5000,000	3,400,000

Required;

i) Calculate the B. E. P. of each product in units and in shs (4Marks)

ii) Calculate the margin of safety if budgeted sales are 125,000 units each (3 Marks)

iii) Compute the profit of each product if sales in units are 20% above the B. E. P (3Marks)

QUESTION FOUR (20 MARKS)

a) Jogoo Limited uses the cost plus mark up method of pricing. In the year starting Jan 2019 their costs were as follows per unit

   - Raw materials 5kg @ 20 per kg
   - Labor 6 hrs @ 40 per hour
   - Variable overheads @ 20 per labor hour
   - Fixed overheads 85 per unit
   - Mark up 25%
   - Advice on the price to charge per unit

b) Explain the advantages of responsibility accounting. (8 Marks)

QUESTION FIVE (20 MARKS)

Last period Josenga Limited budgeted to sell 1000 sets for ksh 280,000 but due to bad trading environment they only managed 840 sets for ksh 228,400. Their production was 900 sets. They had no opening stock and no work in progress. During the period they suffered breakdowns amounting to 25 hours during which wages were paid at the normal rates. In addition 120 MTS of materials were damaged in the store due to bad stacking. The other costs for the period were as follows;

Purchases (5000MTS) 59,200
Wages (4,450 hrs) 36, 560 (includes idle time & pay)
Variable o/h 18,320
Fixed o/h 83,600
Selling costs 28,000
4,550 mts were issued to production
The standard cost card per set was as follows

Materials (5 mts @ 12ksh each)	60
Labor (5 hrs @ ksh 8ph)	40
Variable oh (vary with prodn)	20
Fixed oh (@ ksh 16 per labor hr)	80
Factory cost per set	200
Selling and distribution	32
Total cost	232
Standard profit	48
Selling price	280

Required;

i) Budgeted vs. actual profit for the period. (5 Marks)

ii) Detailed variance analysis for the period. (15 Marks)