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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY

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

Date: 6th December, 2019
Time: 11.00am – 1.00pm

KAC 102 - INTRODUCTION TO MANAGEMENT ACCOUNTING

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

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

b) Explain the following terms
   i) cost unit
   ii) unit cost
   iii) cost centre
   iv) profit centre (4 Marks)

c) Outline differences between Management Accounting and Financial Accounting. (6 Marks)

d) High Tec-engineering Company limited wishes to set flexible budgets for each of its operating departments. A separate maintenance department performs all routine and major repair works on the company's equipment and facilities. The company has alter mined that maintenance department performs all routine and major repairs work on the company's equipment and facilities. The company has determined that maintenance cost is primarily a function of machine hours worked in the various production departments. The maintenance cost incurred and the actual machine hours worked during the months of January, February, March and April 2003 were as follows;

MONTH	machine hours in Production departments	maintenance departments cost
January	800	350
February	1200	350
March	400	150
April	1600	550

Required

Determine the cost estimation function using

i) high low method (7 Marks)

ii) regression analysis (8 Marks)

QUESTION TWO (20 MARKS)

a) "Budgetary control can be operated even without adaption 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) 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)

QUESTION THREE (20 MARKS)

a) Explain the term "decentralization" and explain why companies decentralized their operations (8 Marks)

b) Nyota Ltd has two divisions; A and B. Each of the two divisions produces a single product whose unit costs are as follows:

Division	**A (Shs)**	**B (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 A's product are sold externally at a standard price of shs 300 while 5000 units are transferred to Division B 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 A			
Selling Price (shs)	200	300	400
Demand (Units)	15,000	10,000	5000
Division B			
Selling Price (shs)	800	900	1000
Demand (units)	7,200	5,000	2,800

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

Required

i) The effect of the current transfer price of the company's profits. (8 Marks)

ii) The effect of adopting Division B Manager's proposed transfer price on the profitability of the company (4 Marks)

QUESTION FOUR (20 MARKS)

a) Differentiate between risk and uncertainity (2 Marks)

b) Discuss the decision making model under conditions of uncertainity (8 Marks)

c) 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

QUESTION FIVE (20 MARKS)

a) Easy wash Ltd produces powder soap for household use. The standard direct costs per carton containing 20 packets of one kilogrammes each are as follows:

Raw Materials
15Kgs of Tailow @10perkg
10kgs of caustic soda @ sh 16 per key
Labour
20 packets @ 50 cts each
1 carton @ sh 5 each
The monthly budget is for 1000 cartons. The overhead expenses which are all fixed are Budgeted at shs 40,000 and the standard selling price per 1 kg packet of soap is shs 25.

The following relates to October 2007 when 1,200 cartons of soap were produced and sold.

Sales 1200 cartons	5252000
Raw materials	1296000
Tallow 10800kg	
Caustic soda 13200 Kgs	198000
Labour	
26400hrs	145200
Fixed overhead expenditure	42000

Required

i) Price and usage variances for each material (4 Marks)
ii) Labour rate and efficiency variances (4 Marks)
iii) Sales price and volume variances (4 Marks)

b) Explain the basic assumptions of Cost Volume Profit (CVP) Analysis (8 Marks)