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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR
FIRST YEAR, FOURTH SEMESTER END OF SEMESTER EXAMINATIONS
DIPLOMA IN ACCOUNTING
DAC 1506 –ADVANCED MANAGERIAL ACCOUNTING

Date: 28th July 2022
Time: 11.30am-1.30pm

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Managerial accounting provides decision-oriented information to management that may not be provided by Financial Accounting. Highlight the limitations of financial accounting. (6 Marks)
- b) Explain the term sensitivity analysis in CVP analysis (2 marks)
- c) Identify and briefly explain 3 main tools used in managerial accounting (6 marks)
- d) Briefly explain the following short-term planning and decision making
- i.) Make or Buy decisions (2 marks)
 - ii.) Accept or reject special order (2 marks)
 - iii.) Operate or shut down (2 marks)
- e) What are the advantages of a decentralized organizational structure (4 marks)
- f) Briefly explain what Activity Based Costing involves (2 marks)
- g) Highlight the main assumptions of CVP analysis (4 marks)

QUESTION TWO (20 MARKS)

A company produces two products X and Y which are sold at Sh.2000 and Sh.3,000 per unit respectively. The variable costs per unit are Sh.800 and Sh.1,400 for X and Y respectively. The annual fixed cost is estimated at Sh.13,000,000.

Required:

- a) Calculate the weighted average contribution with sales mix of (4 marks)
- (i) 3:2
 - (ii) 1:3
- b) Determine the break-even number of units assuming the sales mix ratio for A and B is (5 marks)
- (i) 3:2
 - (ii) 1:3
- c) What will be the sales volume required to generate a profit of Sh.7,000,000 assuming sales mix ratios of (5 marks)
- (i) 3:2
 - (ii) 1:3
- d) How much profit will the company make by each mix if the sales volume is 20,000 units? (4 marks)
- e) What conclusion can be drawn from your answers to b, c and d above? (2 marks)

QUESTION THREE (20 MARKS)

An investment manager wishes to buy a group of shares. He has sufficient funds to buy either from A,B or C. The potential gains from the group of shares will depend upon the level of economic activities in the future and the following estimates has been made (All figures are in Millions of Shillings)

		State of nature		
		Expansion	Stability	Decline
Decision Alternatives	A	100	50	-50
	B	50	150	-25
	C	-50	0	180

Required

- a) Which group of shares should be selected if the manager applies
 - i.) The maximax criterion (3 marks)
 - ii.) The maximin criterion (3 marks)
 - iii.) The minimax regret criterion (6 marks)
- b) Suppose the investment manager makes the following probability estimates for the states of nature: expansion 0.1, Stability 0.4 and decline 0.5. Which group should the manager buy if he uses Expected Monetary Value (EMV) approach (5 marks)
- c) If perfect information is available to the investment manager, what is the maximum amount of money that he should be willing to pay for it (3 marks)

QUESTION FOUR (20 MARKS)

Gem Ltd incurred the following costs in the first quarter of 2021

	Sh
Direct material	2,000,000
Direct Labour per unit	1,400,000
Variable Production overhead per unit	600,000
Variable selling and administration expenses	400,000
Fixed production overhead	200,000
Fixed selling and administration expenses	600,000

The company produced 20,000 units and sold 15000 units at price of Sh 370 per unit.

Required

- i) Prepare income statement under absorption costing (8 marks)
- ii) Prepare incoming statement under marginal costing (8 marks)
- iii) Prepare a reconciliation statement for the absorption and marginal costing profit (4 marks)

QUESTION FIVE (20 MARKS)

a) The balanced score card developed by Kaplan and Norton views an organization in four perspectives. Identify and explain the four perspectives of balance score card. (10 marks)

b) The estimated costs of producing 12,000 units of a component are:

	Per unit
	Sh
Direct Materials	10
Direct Labour	8
Variable overhead	9
Relevant Fixed cost	3

The same component can be purchased from market at a price of Ksh32 per unit

Should the component be purchased from the market? (6 marks)

c) Identify stages in decision making process (4 marks)