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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR
THIRD YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF BUSINESS AND INFORMATION
TECHNOLOGY

Date: 11th April, 2024
Time: 2.30pm –4.30pm

KBA 2314 - MANAGERIAL ACCOUNTING

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Masii Ltd is a manufacturing Company based in industrial area of Nairobi county. The company has been in operation for several years and has established itself as a prominent player in industry. However, in recent months, Masii Ltd has been experiencing declining profits and is looking for ways to improve its financial performance and company's management team suspects that the decline in profits may be due to a variety of factors, including changes in sales volume, pricing strategies, and cost structures. To gain a better understanding of its financial situation, the chief accountant of the company decides to conduct a Cost-Volume-Profit (CVP) analysis and to be preparing management accounting on a monthly basis to better monitor performance of the company regularly. The following monthly average data is obtained from the books of accounts.

	Sh.
Selling price per unit	250
Costs:	
Direct material per unit	40
Direct labour per unit	60
Variable overhead per unit	50
Fixed costs	500,000

Required:

- i) Advice the company on the number of units to be sold and sales revenue to break-even. (3 marks)
- ii) If monthly profit of Sh 1,100,000 is desired, advice on the units and turnover (sales) that would have to be achieved to realize this. (3 marks)
- iii) Highlight key assumptions, the chief accountant of Masii Ltd should take into account in the analysis. (4 marks)

- iv) If the sales in units in (ii) above represent 80% of the units produced, while Sh 30 per unit of variable overhead and Sh 200,000 of fixed cost represent sales and administration costs, prepare profit statement using absorption costing technique. (7 marks)
- v) Using data in (iv) above prepare profit statement using marginal costing technique. (7 marks)
- vi) Explain why the profits of the two statements differ (2 marks)
- vii) The management of Masii Ltd can use marginal costing in different managerial decisions. Highlight ways in which marginal costing is important to management. (4 marks)

QUESTION TWO (20 MARKS)

- a) You are the finance manager of Nylon company and you are considering creating a management accounting unit in finance department to enable prepare monthly management financial and reports to aid in timely decision making as opposed to using financial statements. The Chief executive officer should be convinced to approve it.

You are required to:

- i) Highlight why financial statements are not adequate for managerial decisions. (6 marks)
- ii) Discuss reasons for establishing the management accounting unit. (6 marks)
- b) A unit is assumed to require 640 kgs. of material costing Sh 12 per kg. On completion of the production of a unit it was found that 600 kgs. of material costing Sh 14 per kg. has been consumed. Calculate direct material price and usage variance. (4 marks)
- c) Cost is resource or value of money sacrificed to obtain a service and good or to produce goods. Discuss the two ways in which costs can be classified according to function (4 marks)

QUESTION THREE (20 MARKS)

- a) Standard costing is a technique of cost accounting which compares the standard cost of each product or service with the actual cost to determine the efficiency of the operation, so that any remedial action may be taken immediately. Discuss any three types of standards. (6 marks)
- b) Prestige company has asked you to prepare cash budget and as provided the following projections.

Budgeted sales revenue as follows:

	Credit sales	Cash sales
	Shs	Shs
April	675,000	450,000
May	625,000	1,275,000
June	450,000	975,000
July	550,000	950,000

From past experience 60% of credit sales will be collected in the month of sale and the remaining 40% will be collected in the following month. Purchase of inventory are all on credit and 50% is paid in the month of purchase and 50% in the month following purchase.

Budgeted purchases of inventory are:

	Sh
April	1,500,000
May	1,200,000
June	525,000
July	600,000

- Administrative expenses Sh 240,000 to be paid each month
- Motor vehicle of sh 400,000 to be purchased in July, equipment worth sh 150,000 to be purchased in June and furniture in May 2024.
- Turnover tax is paid at 2% on total sales on the month following month of sale.
- Dividends of Sh 120,000 will be paid in June
- Gross Interest on investments of Sh 250,000 to be received in May. Withholding tax of 5% is to be charged at source
- The beginning balance at 1 May is Sh 600,000

Required

Prepare cash budget for the months of May, June and July

(14 marks)

QUESTION FOUR (20 MARKS)

a) Zolex Engineering repairs and services generators and he the following data was obtained

Month	Number of generators	Repair and service costs (Sh)
Jan	25	12,500
Feb	30	14,000
Mar	35	15,500
Apr	47	19,100
May	37	16,100
Jun	44	18,200
Jul	45	18,500
Aug	42	17,600
Sep	40	17,000
Oct	43	17,900
Nov	38	16,400
Dec	27	13,100

Determine the cost estimation function $y=a+bx$ using;

i) High-low method

(3 marks)

ii) Regression analysis.

(7 marks)

- b) Using above functions estimate the repair and service costs that will be incurred for 39 generators expected in January the following year. (4 marks)
- c) If the maximum repair and service cost has been set at sh 20,000 what is the maximum number of generators to be repaired using both high low and regression method. (4 marks)
- d) Which method used above is preferred and why. (2 marks)

QUESTION FIVE (20 MARKS)

- a) A Brick maker at Githurai is currently operating at 80% of its normal capacity and producing 40,000 brick per day. Due to anticipated increase in sales, the company wishes to step up production to 110% capacity.

The following information is available:

	60% level of production	100% level of production
	Sh	Sh
Direct Material Costs	90,000	150,000
Direct Labour costs	60,000	100,000
Repair and maintenance	80,000	120,000
Sales promotion and advertising	150,000	230,000
Depreciation of equipment	45,000	45,000

Required;

- i) Compute cost function for each component and the total cost function (6 marks)
- ii) Using equations obtained above calculate cost of each component and the total cost of current capacity of 80% (6 marks)
- iii) Compute the cost of each component and total costs expected at 110% capacity (6 marks)
- iv) Highlight advantages of using account analysis method in estimating costs. (2 marks)