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KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
FIRST YEAR, FOURTH SEMESTER EXAMINATION
FOR THE DIPLOMA IN ACCOUNTING
DAC 1506: ADVANCED MANAGEMENT ACCOUNTING

Date: 10TH AUGUST 2023

Time: 8:30AM-10:30AM

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Discuss Five major objectives of management accounting. **(5 Marks)**
b) Identify and explain six major limitations of management accounting. **(6 Marks)**
c) A company produces two products X and Y which are sold at Sh.4000 and Sh.5,000 per unit respectively. The variable costs per unit are Sh.900 and Sh.1,500 for X and Y respectively. The annual fixed cost is estimated at Sh.15,000,000.

Required:

- i. Determine the break-even number of units assuming the sales mix ratio for X and Y is: 5:2. **(3 Marks)**
ii. What will be the sales volume required to generate a profit of Sh.8,000,000 assuming sales mix ratios of: 5:2. **(3 Marks)**
iii. How much profit will the company make by each mix if the sales volume is 30,000 units? **(3 Marks)**
d) XYZ Ltd. Intends to launch a new product into the market. The management of the company are uncertain of some variables namely; the selling price, the variable costs and the annual sales volume of the product.
The following information relates to the possible values of the above variables and their associated probabilities:

Selling price per unit (Sh.)	Probability	Variable cost per unit (Sh.)	Probability	Sales volume	Probability
400	0.30	200	0.10	300,000	0.2
500	0.50	300	0.60	400,000	0.4
600	0.20	400	0.30	500,000	0.4

Additional information:

1. The sales volume is the estimated annual sales.
2. The uncertain variables are independent of one another.

Required

Simulate the above problem in 5 cycles and use the results to determine the average annual contribution of the product.

Use the following random numbers:

80,60,43,63,21,40,36,05,69,16,73,86,28,31,61,57,39,96,47,72,69. **(7 Marks)**

- e) You have identified an opportunity with a 50% chance of happening. However, it may help you gain 20,000 Khs. Calculate the expected monetary value (EMV) for this risk event. **(3 Marks)**

QUESTION TWO (20 MARKS)

- a) The company worked out the payoffs in terms of yearly net profits for each of the strategies for these events (expected sales) as follows:

Strategies	States of nature Payoffs in sh. 000		
	P ₁	P ₂	P ₃
S ₁	900	500	250
S ₂	800	550	100
S ₃	400	400	400

Which strategy should be chosen on the basis of the following criteria?

- i. Maximax criterion **(2 Marks)**
 - ii. Maximin criterion **(2 Marks)**
 - iii. Minimax regret criterion **(2 Marks)**
- b) The cost of making One packet of nail is given as;

	<u>Ksh</u>
Material	700
Labour	250
Production overhead	<u>150</u>
	<u>1100</u>

Variable overhead comprise 30% of production overheads. This component could be bought at Ksh650 from an outside supplier. You are required to advise whether to make or buy this component.

- (6 Marks)**
- c) Discuss any five differences between financial and managerial accounting **(5 Marks)**
- d) State three methods for decision making under conditions of certainty **(3 marks)**

QUESTION THREE (20 MARKS)

- a) Outline five advantages of expected monetary value analysis **(5 Marks)**
- b) Kidani Mabati Ltd manufactures a Mable mabati which they sell for Ksh 2000 per unit. Current output is 40,000 units per month which represents 100% of capacity. They received an order for 6000 Mabati which they can produce by working extra hours during the month. The selling price per unit of this order is Ksh 60,000. Total costs for the last month were Ksh 500,000 which included fixed costs of Ksh 80,000. If the special order for 6000 units is received then the variable cost per unit will increase by 30%, but the fixed costs will remain unchanged. **(6 Marks)**

Required:

Advise the company on whether to accept or reject this order.

- c) Identify and explain two types of cost drivers in activity based costing. **(4 Marks)**
- d) Discuss any five advantages of activity based costing. **(5 Marks)**

QUESTION FOUR (20 MARKS)

- a) Discuss Five factors to consider when selecting a performance measure. (5 Marks)
- b) Identify and explain six users of accounting information. (6 Marks)
- c) State any four tools of management accounting. (4 Marks)
- d) Discuss five main functions of management accountant. (5 Marks)

QUESTION FIVE (20 MARKS)

- a) State six characteristics of marginal costing. (6 Marks)

- b) KLB Company produces three products for which the following data have been provided;

PRODUCT

	A	B	Z	Total
	Ksh	Ksh	Ksh	Ksh
Sales	250,000	180,000	150,000	580,000
Total costs	<u>200,000</u>	<u>200,000</u>	<u>120,000</u>	<u>520,000</u>
Profit (Loss)	<u>50,000</u>	<u>(20,000)</u>	<u>30,000</u>	<u>60,000</u>

Total cost comprise 75% variable and 25% fixed

The directors of the company consider that the product ‘Y’ shows a loss so it should be discontinued. You are required to advise the management whether to drop the product ‘Y’ or not

Less: Fixed costs	<u>130,000</u>
Profit	<u>30,000</u>

(6 Marks)

- c) Outline five main steps followed in activity based costing system. (5 Marks)
- d) The following information relates to Johnson and Johnson company.

Calculate the residual income of each division. (3 Marks)

	Johnson and Johnson company			
	(Required Rate of return 10%)			
Division	Revenue	Operating Expense	Operating profit	Divisional Investment
Nairobi	Ksh.5,850,000	Ksh.4,512,500	Ksh.1,337,500	Ksh.8,200,000
Mombasa	Ksh.4,520,400	Ksh.3,798,568	Ksh.721,832	Ksh.10,000,000
Kisumu	Ksh.4,880,000	Ksh.4,128,592	Ksh.751,408	Ksh.10,000,000

