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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2016/2017 ACADEMIC YEAR
SECOND YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 11th August, 2016.
Time: 3.30pm – 5.30pm

KAC 102 - INTRODUCTION TO 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. (4 Marks)

b) Explain the objectives of management accounting. (6 Marks)

c) KPLC plans inventory levels (at cost) at the end of each month as follows: April 250,000 May, shs. 275,000; June, shs 220,000; July, shs 270,000 and August, 240,000. Sales are expected to be June, shs440, 000: July, shs 350,000; August, shs 420,000. As a policy the organization collects a deposit of 50% in the month of sale and the remainder in two equal monthly installments. Cost of goods sold is 60% of sales. Sales in April were shs350,000; May shs380,000. Payments for each month's purchases are made as follows: 10% during that month; 80% the next month and the final 10% the next month. There is a plan to clear tax arrears amounting to 280,000 in july while the ompany is expecting interim dividends from an associate in august amounting to ksh 680,000. Overheads are 10% of sales in any month and are payable when incurred.

Required;

Prepare a cash plan for the months of June, July and August assuming an opening cash balance of Shs 180,000 in June. (14 Marks)

d) Explain any three differences between financial accounting and management accounting. (8 Marks)

QUESTION TWO (20 MARKS)

a) Explain any three limitations of break even analysis.

(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 (20 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	10	12
Variable cost per unit	2	8
Fixed cost	50,000	34,000

Required;

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

(4 Marks)

ii) Calculate the margin of safety if budgeted sales are 10,000 units each.

(3 Marks)

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

(3 Marks)

QUESTION FOUR (20 MARKS)

a) Write short notes on the following;

   i) Zero based budgets. (3 Marks)

   ii) Incremental budgets. (3 Marks)

   iii) Activity based budgeting. (3 Marks)

b) 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	540	610	480
Variable costs	280	310	340

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. (7 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 FIVE (20 MARKS)

a) Explain the role of the following in an organization;

   i) Budget officer (2 Marks)

   ii) Budget committee (2 Marks)

b) Explain the significance of the margin of safety in management. (6 Marks)

c) Last month a company in the region incurred the following costs;

Rent	250,000
Lighting	180,000
Raw materials	1,420,000
Depreciation	840,000
Canteen costs	320,000
Salaries : Production -	842,000
Finance	454,000
Marketing	348,000
Administration	642,000
Advertising costs	1420,000

The company has four departments production, Finance, Marketing, and Administration. The following information is relevant;

	Production	Finance	Marketing	Administration
No of staff	60	12	15	8
Floor area	2400	400	600	600
Assets	4,380,000	940,000	420,000	180,000

Required;

Determine the most probable costs incurred by each department during the month.

(10 Marks)