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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
THIRD YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 14th December, 2023
Time: 2.30pm –4.30pm

KAC 301 - ADVANCED MANAGEMENT ACCOUNTING

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Discuss the applications of cost volume profit analysis in managerial decision making. **(6 Marks)**
- b) Discuss the reasons that would make a manager undertake a scenario analysis instead of sensitivity analysis. **(6 Marks)**
- c) Discuss the importance of key factor in budgeting. **(3 Marks)**
- d) Central Glass Limited manufactures two products bottles and vases. Details relating to the two is as follows

	Bottle	Vase
Selling price	50	80
Variable costs	30	40

Fixed costs Shs400000

The company sells 5 bottles for every 2 vases

Required

Calculate the break-even point both in units and in shillings. **(7 Marks)**

- e) The following information has been extracted from the books of Solar cross Ltd for the year to 31 March 2022:

Production	30,000 units
Sales	24,000 units
Production cost incurred:	Sh. '000'
Direct material	7,200
Direct labour	1,800
Variable overheads	1,500
Fixed overheads	2,700

Selling and administrations costs:

Sales and salaries	450
Variable sales commission and advertising	300 480
Other fixed costs	720

The company's unit selling price is Sh 550.

Required:

Profit and loss statement under marginal costing approach.

(10 Marks)

QUESTION TWO (20 MARKS)

a) The following data was extracted from the manufacturing records of Sukari enterprises.

Unit selling price	Shs 100
Variable costs per unit	Shs 60
Fixed costs	shs4 million
Corporation tax rate	30%

Required

i) Calculate the break even sales of the business.

(4 Marks)

ii) If the proprietor is targeting an after tax profit of Shs 1.5 million, calculate the targeted sales in shillings.

(4 Marks)

b) The opening cash balance on 1 January 2023 was expected to be sh.50, 000. The sales budgeted is as follows:

	sh.
November	80,000
December	90,000
January	75,000
February	100,000
March	80,000

Analysis of records shows that debtors settle according to the following pattern.

- 60% within the month of sale
- 25% the month following
- 15% the month following
- Credit terms are 5/30, 3/60 net 90

Extracts from the purchases budget were as follows:

	Shs.
December	60,000
January	70,000
February	40,000
March	50,000

The company gets the same credit terms as it gives its customers

All purchase are on credit and past experience shows that 90% are settled in the month of purchase and the balance settled the month after.

Wages of 15,000 are paid to employees every month.

Depreciation charge is sh 15,000 per month on straight line basis.
 Other overhead expenses are 15% of the monthly sales figure. These are settled within the month.
 Taxes of sh.8, 000 has to be settled in February and the company will receive settlement of an insurance claim of sh.40, 000 in the month of March.

Required;

Prepare a cash budget for January, February and March.

(12 Marks)

QUESTION THREE (20 MARKS)

- a) XYZ Ltd is a manufacturing company operating from Baba Ndogo Industrial complex. XYZ ltd rents a factory for sh.100, 000 per year. Half of the factory is already occupied by a machine. The company is considering installing an additional machine which would produce 20,000 units at a variable cost of sh.5 per unit. These units would sell for sh.7 each. Additional space would have to be rented at a cost of sh.50, 000. Should the company undertake the expansion?

(8 Marks)

- b) Mwiki Company Ltd. manufactures clothing and sells directly to clothing retailers. One of its departments manufactures T-shirts. The department has a production capacity of 80,000 T-shirts per month. Currently, the company has excess capacity which has resulted from liquidation of one of its major customers in the month of April 2022. For the next quarter, monthly production and sales volume is expected to be 50,000 T-shirts. The expected costs and revenues per T-shirt at this activity level are as follows:

	Sh.
Direct materials	35
Direct labour	50
Production overheads: Variable	8
Fixed	30
Marketing and distribution costs	<u>12</u>
Total costs	<u>135</u>
Selling price	<u>160</u>
Profit	25

Additional information:

- i) Mwiki Company Ltd. is expecting an upsurge in demand and considers that the excess capacity is temporary.
- ii) A company has placed an order with Mwiki for 2,000 T-shirts each month for the next three months at a price of Sh.95 per T-shirt.
- iii) The company would collect the T-shirts from Mwiki Ltd. factory and thus no marketing and distribution costs will be incurred.
- iv) The company would require its logo to be imprinted on the T-shirts. This would cost Mwiki Company Ltd. an extra Sh.5 per T-shirt.

Required:

Advise Mwiki Company Ltd. whether to accept or reject the offer.

(12 Marks)

QUESTION FOUR (20 MARKS)

The following budget details were extracted from the books of account of a manufacturing business.

Sales units	100000
Selling price per unit	200
Variable costs per unit	100
Fixed costs	shs5million

Required;

- a) Undertake a sensitivity analysis of a 20% change in variable costs. **(8 Marks)**
- b) It is estimated that if selling price is adjusted by 20%, units sold will change by 15%. Assuming variable and fixed costs remain unchanged, undertake a scenario analysis on the above budget. **(12 Marks)**

QUESTION FIVE(20 MARKS)

The following data relates to the repair cost incurred and the number of labour hours employed by Sukari Motor Garage Ltd for six months.

Month	Jan	Feb	March	April	May	June
Repair cost (Shs)	600,000	800,000	550,000	1,000,000	700,000	500,000
No. of hours employed	4000	5000	3000	6000	4000	2000

Required:

Formulate a cost estimation function/equation in form of $y = a + bx$ using:

- a) High-low method **(5 marks)**
- b) Visual fit method **(5 Marks)**
- c) Simple linear regression method **(6 marks)**
- d) Use the equations obtained above to estimate the total repair cost for the month of July if the number of labour hours employed was 7000. **(4 marks)**