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**KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2018/2019 ACADEMIC YEAR**  
**DIPLOMA IN BANKING AND FINANCE**  
**DAC 1503 – MANAGERIAL ACCOUNTING**

Date: 13<sup>th</sup> April, 2018  
Time: 2.30pm – 4.30pm

**INSTRUCTIONS TO CANDIDATES**

**ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS**

**QUESTION ONE (30 MARKS)**

- a) Distinguish between management and financial accounting (6Marks)
- b) Explain the advantages of budgeting (8Marks)
- c) Describe types of cost (6Marks)
- d) A company produces a single product. The following is the budget for the product

**Budget**

- i) Selling price shs 10  
ii) Direct material cost per unit shs 3  
iii) Direct wages per unit shs 2  
iv) Variable overhead per unit shs 1  
v) Fixed production overhead shs 10,000  
vi) Production volume 5,000 units per month

**Actual**

- i) Production 6,000 units  
ii) Sales 4,800 units  
iii) Assume that all costs were as budgeted

**Required:**

Prepare a profit statement using:

- i) Absorption costing (5Marks)
- ii) Marginal costing (5Marks)

**QUESTION TWO (20 MARKS)**

Assume that a company intends to sale product in the market, at a selling price of shs 10 per unit. The variable cost is shs 7 per unit and the total fixed cost is shs 3,000

Required:

- a) Compute the break- even point in units and shillings (5 Marks)
- b) Assume the company intends to make a profit before tax of 20% of sales, determine the number of units that must be sold (5Marks)
- c) Assume that the corporate tax rate is 30% and the company as a target profit of 1800 after tax. Compute the number units that must be sold to earn this target profit (5Marks)
- d) If the company expects to sale 600 units, compute the margin of safety (5Marks)

**QUESTION THREE (20 MARKS)**

A company is considering whether to develop a new product or consolidate existing product. New product development can either be undertaken through thorough development at a cost of shs 150,000 or through rapid at a cost of shs 80,000 while product consolidation can either be achieved through strengthening the products at a cost of shs 30,000 or through reaping the products at no cost extra cost. The following are the expected outcomes, accompanying probabilities and the projected for the options.

	Thorough development			Rapid development			Strengthening product			Reaping product	
Outcomes	Good	Mod	poor	good	mod	poor	good	mod	Poor	Good	poor
Probabilities	0.3	0.4	0.3	0.2	0.3	0.5	0.4	0.4	0.2	0.6	0.4
Revenues	100000	50000	20000	100000	50000	20000	40000	20000	60000	20000	20000

Should the company develop a new product or consolidate existing product? (12Marks)

b) Highlight the steps of cost estimation (8Marks)

**QUESTION FOUR (20 MARKS)**

a) Assume that the product manager of ABC Ltd is concerned about the apparent fluctuations in efficiency and therefore work done by employees which are related to the volume. The result of this in most 7 weeks research carried out is as shown below;

Week	Machine hours (cost driver)	Indirect labour costs kshs
1.	70	2000
2.	89	1,235
3.	72	1,150
4.	65	980
5.	62	778
6.	98	1,456
7.	81	1,170

Required:

a) Using Regression model determine the labour cost associated with 80 machine hours (10Marks)

b) Describe the criticism of cost volume profit analysis (10Marks)

**QUESTION FIVE (20 MARKS)**

Assume that a certain process has a learning curve effect and the first unit took 2500 hours to produce.

Required:

i) Compute the number of hours required to produce 32<sup>nd</sup> unit. (10 Marks)

ii) Assume that the wage rate is kshs 100 per hour, compute the labour cost of producing the last 16 units (10Marks)