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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2019/2020 ACADEMIC YEAR
THIRD YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)**

Date: 12th April, 2019
Time: 8.30am – 10.30am

KAC 301 - ADVANCED MANAGEMENT ACCOUNTING

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) With relevant examples define sunk costs and explain their relevance in managerial decision making (6 Marks)
- b) Explain three key principles in managerial decision making (6 Marks)
- c) The following data relates to a company in the region

Product	PIN	PAN	PEN
Selling Price	50	65	45
Variable costs	40	50	32
Fixed Costs			580,000

The company has approached you on whether to adopt a proposal to change the product mix from the current 2:1:1 to 1:1:2. Explain your answer in detail and using supporting analysis (10 Marks)

- d) Explain The meaning and any three objectives of internal pricing (8 Marks)

QUESTION TWO (20 MARKS)

- a) A company has fixed costs of Ksh 11,520,000 and variable costs of ksh 52 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 8% while the variable costs go down by 19% 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 advise the company to take?
(10 Marks)
- b) Explain any four pricing methods clearly stating the advantages and disadvantages of each method
(10 Marks)

QUESTION THREE (20 MARKS)

The standard cost card for product X per unit is as follows:

	Shs
Direct materials (12kg @ Shs 10)	120
Direct labour (5 hours @ Shs 15)	75
Variable overheads (5 hours @ shs 5)	25
Fixed overheads (5 hours @ Shs 4)	<u>20</u>
	240
Standard profit	<u>60</u>
Standard selling price	300

During the period the following details were recorded:-

	Shs
Purchases of materials (19200 kg)	172,800
Direct wages (7200 hours)	115,200
Variable overheads	28,800
Fixed overheads	32,400

Material issued to production were 18200 kg

The sales and production budget had been set at 1500 units. However, only 1400 units produced and sold at a price of sh 310 per unit. The budgeted fixed overhead was shs 30,000

Required:

- i) Prepare a comparative profit and loss statement for the period and the overall variance for each element (8 Marks)
- ii) Prepare variance analysis to explain the variation in profitability (12 Marks)

QUESTION FOUR (20 MARKS)

a) Explain the meaning of responsibility accounting and reasons why an organization may want to practice it (10 Marks)

b) a company in the region has the following cost structure for its product Zeta

Raw materials – 5 kgs @ 6 30
Direct labor - 3 hours @12.5 37.5
Variable o/h @10 per labor hrs 30
Fixed costs 625,000

The current production capacity is 20,000 units per month and the company is currently producing 18,500 units which they sell at ksh 150 per unit. A one off order for 3000 units has been received at a proposed price of ksh 120. The order is likely to make use of raw materials that are no longer in use which cost the company ksh 8 per kg but can only be disposed off at ksh 4 per kg. Advice the management on whether to take up this order (10 Marks)

QUESTION FIVE (20 MARKS)

a) Explain the significance of management accounting in an organization. (4 Marks)

b) Explain the significance of the margin of safety in management. (5 Marks)

c) A company has the following cost structure per unit of product Y

Raw materials – 4 kgs @ 7 28
Direct labor - 3 hours @18 54
Variable o/h @8 per labor hrs 24

The company has adopted a cost plus mark up in pricing with a desired mark of 25%. Estimate the selling price of the product (5 Marks)

d) Differentiate between by products and joint products. (6 Marks)