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KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR
FIRST YEAR, FOURTH SEMESTER EXAMINATION
FOR THE DIPLOMA IN ACCOUNTING
DAC 1506- ADVANCED MANAGEMENT ACCOUNTING

Date: 8TH DECEMBER, 2022
Time: 11:30am-1;30pm

INSTRUCTIONS TO CANDIDATES
ANSWER QUESTIONONE (COMPULSORY) AND ANYOTHER TWO QUESTIONS
QUESTION ONE (30 MARKS)

a) Differentiate between Managerial accounting and financial accounting. (4Marks)

b) The management of Tongeri Enterprises Ltd is planning an expansion programme to reap from the economies of scale operation. The management accountant has presented the following information relating to production costs which has been established to vary with the units produced for the 6 -month period from 1 January 2021 to June 2021.

Period	Total production cost in shs	Units produced
January	46,000.00	30.00
February	30,000.00	22.00
March	48,000.00	33.00
April	55,000.00	39.00
May	57,000.00	41.00
June	31,000.00	24.00

Required

Using High-Low method of cost estimation:

i) Identify the highest and lowest level of units produced. (2 Marks)

ii) Identify the highest and lowest level of production cost incurred. (2 Marks)

iii) Compute the variable cost per unit produced. (5 Marks)

iv) From the equation in (A) (i), (ii) and (iii) above, estimate the total production cost that would be incurred on production of 100 units which the management proposes in the planned expansion programme in the month of July 2021. (3 Marks)

c) Though managerial accounting is a helpful tool in management its effectiveness is limited. Discuss limitations of managerial accounting. (6Marks)

d) 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:

Using the regression modeldetermine the labour cost associated with 80 machine hours. (8Marks)

QUESTION TWO (20 MARKS)

a) Danto Ltd. manufactures a product called "MILIKI". The cost and revenue data relating to the manufacture of this product is given below:

	Shs	
Selling price per unit	66	
Variable production cost per unit	44	
Variable selling cost per unit	4	
Fixed production cost (total)		Shs.200,000
Fixed selling and administrative cost (total)		Shs.99,000
Target profit	Shs. 70,000	

Required

i) Calculate the break-even sales level in units and in shillings before considering the target profit; (6Marks)

ii) Calculate the break-even sales level in units and in shillings after considering the target profit of shs. 70,000; (6Marks)

b) Faulu ltd and Hazina ltd are companies operating in the same industry but are currently faced with relative decision. Faulu 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 for a variable cost of sh.5 per unit. These units would sell for sh.7 each. Half of the factory rent would be apportioned to the new machine. Hazina ltd is considering installing a machine which would produce 20,000 units for 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. Evaluate decision to be made by company Faulu and Hazina. (8 Marks)

QUESTION THREE (20 MARKS)

a) Kayali, the assistant accountant at Study Stationers Ltd, has obtained the following information for the seven months ending 30 September 2021. This information is to be used to prepare a cash budget for the four months ending 31 August 2021.

- Actual sales were sh 44,000 and sh 46,000 for March and April 2021 respectively.
- Total forecast sales at the end of each of the next five months are expected to be:

2021

MAY	JUN	JUL	AUG	SEPT
44,000	46,000	42,000	44,000	48,000

- 80% of each month's total forecast sales are expected to be for cash. The trade receivables are expected to pay one month in arrears.
- Purchases are expected to be 70% of the following month's total forecast sales value and are paid for two months in arrears.

The following costs are expected to be paid for in the month in which they occur:

- Wages sh 9,000 per month to 31 July 2021 and sh 9,500 per month thereafter
- Fixed Costs sh3,000 per month
- Variable costs being 10% of each month's total forecast sales

The bank balance as at 1 May 2021 was sh12,100.

Required

Prepare a cash budget for May, June, July,August 2021. (20Marks)

QUESTION FOUR (20 MARKS)

Mashati 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
Productionoverheads: Variable	8
Fixed	30
Marketing and distribution costs	12
Total costs	135
Selling price	160
Profit	25

Additional information:

- Mashati Company Ltd. is expecting an upsurge in demand and considers that the excess capacity istemporary.
- ABC Ltd. has offered to buy for its employees 2,000 T-shirts each month for the next three months at a price of Sh.95 perT-shirt.
- ABC Ltd. would collect the T-shirts from Mashati Company Ltd. factory and thus no marketing and distribution costs will beincurred.
- ABC Ltd. would require its logo to be imprinted on the T-shirts. This would cost Mashati Company Ltd. an extra Sh.5 perT-shirt.
- Mashati Company Ltd. has an agreement with its employees that entitles the employees at least six months' notice in the event of anyredundancies.
- No subsequent sales to this customer areanticipated.

Required:

a) Advise Mashati Company Ltd. whether to accept or reject the offer from ABC Ltd. (10Marks)

b) Discuss the importance of budgeting in an organization. (10 Marks)

QUESTION FIVE (20 MARKS)

a) A company is considering two alternative projects, A and B. The initial investment in each project is Ksh. 2,500. The projects annual cash flow are as;

Year	Project X	Project Y
1	500	100
2	500	200
3	500	300
4	500	400
5	500	500
6	500	600
7	500	700
8	500	800
9	500	900
10	500	1000

The cost of capital is considered at 13%, determine;

i) Net present value of the two projects (8 Marks)

ii) Profitability index of the project (4 Marks)

iii) Internal rate of return of projects (6 Marks)

b) From (i) above make a decision. (2 Marks)