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**KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR**  
**END SEMESTER EXAMINATION**  
**FOR THE BACHELOR OF BUSINESS INFORMATION TECHNOLOGY**  
**KBA 2314 – MANAGEMENT ACCOUNTING**  
**SPECIAL**

Date: 17<sup>TH</sup> AUGUST 2023  
Time: 8:30AM – 10:30AM

**INSTRUCTIONS TO CANDIDATES**

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

**QUESTION ONE (30 MARKS)**

- a) Explain the term “decentralization” and explain why companies decentralized their operation (12 Marks)
- b) High Tec-engineering Company limited wishes to set flexible budgets for each of its operating departments. A separate maintenance department performs all routine and major repair works on the company’s equipment and facilities. The company has determined that maintenance department performs all routine and major repairs work on the company’s equipment and facilities. The company has determined that maintenance cost is primarily a function of machine hours worked in the various production departments. The maintenance cost incurred and the actual machine hours worked during the months of January, February, March and April 2003 were as follows

<b>MONTH</b>	<b>machine hours in Production departments</b>	<b>maintenance departments cost</b>
January	800	350
February	1200	350
March	400	150
April	1600	550

Required

- i) determine the cost estimation function using
- a) high low method (8 Marks)
- b) regression analysis (10 Marks)

**QUESTION TWO (20 MARKS)**

“The most important factor to remember is that standard costs reflect what should be for stated conditions and volume of output”

**Required**

- a) The three types of standards costs and the basic assumptions underlying each one of them. (6 Marks)

- b) The usefulness of each of three standards (a) above. (6 Marks)  
 c) How standard costs may effectively used as control tool. (8 Marks)

**QUESTION THREE (20 MARKS)**

- a) Easy wash Ltd produces powder soap for household use. The standard direct costs per carton containing 20 packets of one kilogrammes each are as follows:

**Raw Materials**

15Kgs of Tailow @ 10perkg

10kgs of caustic soda @ sh 16 per key

**Labour**

20 packets @ 50 cts each

1 carton @ sh 5 each

The monthly budget is for 1000 cartons. The overhead expenses which are all fixed are Budgeted at shs 40,000 and the standard selling price per 1 kg packet of soap is shs 25.

The following relates to October 2007 when 1,200 cartons of soap were produced and sold.

	5252000
Sales 1200 cartons	
Raw materials	
Tallow 10800kg	1296000
Caustic soda 13200 Kgs	198000
Labour	
26400hrs	145200
Fixed overhead expenditure	42000

**Required**

- i) Price and usage variances for each material (4 Marks)  
 ii) Labour rate and efficiency variances (4 Marks)  
 iii) Sales price and volume variances (4 Marks)  
 iv) Variable overhead variance (4 Marks)  
 v) Fixed overhead variance (4 Marks)

**QUESTION FOUR (20 MARKS)**

- a) A company makes a single product with a sales price of sh 10 and a marginal cost of sh 6. Fixed costs are shs 60,000 per annum

Calculate

- i) Number of units to break even (2 Marks)  
 ii) Sales at break- even point (2 Marks)  
 iii) Number of units will need to be sold to achieve a profit of sh 20000 p.a (2 Marks)  
 iv) If the taxation rate is 40% how many units will need to be sold to make a profit after a tax of Sh 20,000 p.a (4 Marks)
- b) Discuss the decision making model under conditions of uncertainty (10 Marks)

**QUESTION FIVE (20 MARKS)**

- a) Budgetary control can be operated even without adoption of standard costing. Explain both budgetary control and standard costing and show how the former is not dependent on the latter (10 Marks)

A company is considering whether to develop and market a new product. Development costs are estimated to be Shs 180,000 and there is a 0.75 probability that the development effort will be successful and a 0.25 probability that the development effort will be unsuccessful. If the development is successful the product will be marketed, and it is estimated that:-

- i) If the product is very successful profits will be Shs 540000
- ii) If the product is moderately successful profits will be Shs 100000
- iii) If the product is a failure, there will be a loss of Shs 400000

Each of the above profit and loss calculations is after taking into account the development costs of sh 180,000. The estimated probabilities of each of the above events are as follows:

- i) Very successful                      0.4
- ii) Moderately successful                      0.3
- iii) Failure                                      0.3

**Required**

Draw a decision tree to estimate the pay offs for the company (10 Marks)