Kasarani Campus
Off Thika Road
Tel. 2042692 / 3
P. O. Box 49274, 00100
NAIROBI
Westlands Campus
Pamstech House
Woodvale Grove
Tel. 4442212
Fax: 4444175

# KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY

UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR
SECOND YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 14th April, 2022
Time: 2.30pm –4.30pm

## KAC 102 - INTRODUCTION TO FINANCIAL MANAGEMENT

**INSTRUCTIONS TO CANDIDATES**

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

**QUESTION ONE (30 MARKS)**

a) Discuss four limitations to Management Accounting (8 Marks)

b) Dash Ltd. Manufacturers liquid cleaning products from chemical raw materials. It uses the following standard costs for the production of a batch of its product Sparkleen.

Materials

| | |
|---|---|
| Ammonia solution | 200 litres at shs. 1.10 per litre |
| Colouring | 1000 litres at shs. 0.10 per litre |
| Fragrance agent | 10 Litres at shs. 14.20 per litre |
| Labour operations | |
| Blending | 8 hours at shs. 12.00 per hour |
| Mixing | 12 hours at shs. 8.00 per hour |

The actual costs for batch S4120 were:

Material

| | |
|---|---|
| Ammonia solution | 240 litres costing shs. 216.00 |
| Colouring | 950 litres costing shs. 85.50 per litre |
| Fragrance agent | 11 litres costing shs. 165 |
| Labour operations | |
| Blending | 11 hours costing shs. 143 |
| Mixing | 10 hours costing shs. 90.00 |

Required

Calculate the following variances from standard for batch 4120.

i) Material price variances (2 Marks)
ii) Material usage variances (2 Marks)
iii) Total direct material cost variances (2 Marks)
iv) Labour rate variances (2 Marks)
v) Labour efficiency variances (2 Marks)
vi) Total direct labour cost variances (2 Marks)

c) The following information relates to Nyota enterprises

| Period | overheads costs shs. (000) | output tonnes (000) |
|---|---|---|
| 1 | 770 | 120 |
| 2 | 820 | 150 |
| 7 | 810 | 160 |
| 4 | 830 | 170 |
| 5 | 960 | 200 |
| 6 | 900 | 170 |
| 7 | 940 | 200 |
| 8 | 950 | 200 |
| 9 | 940 | 180 |
| 10 | 870 | 160 |
| 11 | 800 | 140 |
| 12 | 820 | 150 |
| 13 | 790 | 140 |

Required

Calculate the coefficient of correlation (r) of variables Y and X. (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 basis 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) Business, after their break-even points, always accumulate profits in direct proportion to further increases in the level of output. Explain how output affects the profits generated. (8 Marks)

a) The special occasions restaurant has a capacity of 25 customers per day and opens for 300 days in the year.

Details of the costs and income of the restaurant are as follows;

1. Each customer will spend an average of shs. 12 on a meal.
2. Raw material costs represent one third of income
3. There are two full-time members of staff who are each paid shs. 10,000 per annum.
4. The premises were purchased at a cost of shs. 200000 with fixtures and fittings costing a further shs. 50000. Depreciation is to be charged at the rate of 2% on the cost of premises and 20% on the cost of fixtures and fittings.
5. Other fixed overheads amount to a total of shs. 16000 per annum.

**Required**

Calculate;

i) The number of meals which must be sold for the business to break even. (4 Marks)

ii) The profit or loss of the business for the year, assuming that full capacity is achieved. (4 Marks)

iii) The margin of safety. Comment upon the sufficiency level of the margin of safety for this business. (4 Marks)

**QUESTION FOUR (20 MARKS)**

a) Nanyuki Limited has two divisions, A and B. Each of the two divisions produces a single product whose unit costs are as follows:-

| **Division** | **A (shs)** | **B(shs)** |
|---|---|---|
| Direct material | 60 | 230 |
| Direct labour | 40 | 30 |
| Variable overheads | 60 | 120 |
| Fixed overheads | 40 | 120 |
| Selling and packaging (variable) | 10 | 10 |
| Transfer in cost (from division M) | - | 290 |
| TOTAL | **210** | **800** |

**Additional Information**

i) Annually 10,000 units of division A's product are sold externally at a standard price of shs 300 while 5000 units are transferred to Division B at sh290 after deducting the selling and packaging expense which is not incurred during internal transfers.

ii) A recent study of the demand and sales relationship of the company's product by the company's product by the sales division of the company produced the following results:

| **Division A** | | | |
|---|---|---|---|
| Selling Price (shs) | 200 | 300 | 400 |
| Demand (units) | 15000 | 10000 | 5000 |

| **Division B** | | | |
|---|---|---|---|
| Selling Price (shs) | 800 | 900 | 1000 |
| Demand (units) | 7200 | 5000 | 2800 |

iii) The manager of Division B has suggested that transfer from A should be made at Sh 120 which represent the variable costs plus a minimum mark-up since division B is taking output that Division A would not be able to sell externally at a price of sh 300. He also explains that this would lead to improved profitability of the company.

**Required;**

1. The effect of the current price of the company's profit (9 Marks)
2. The effect of adopting Division B manager's proposed transfer price on the profitability of the company.

(3 Marks)

b) Discuss the decision making model under conditions of uncertainty

(8 Marks)

**QUESTION FIVE (20 MARKS)**

a) Explain the term "decentralization" and show why most companies decentralized their operations.

(10 Marks)

b) 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:

Use a decision tree to compute the expected payoffs.

(10 Marks)