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, 2023/2024 ACADEMIC YEAR
THIRD YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 20th April, 2023
Time: 11.30am –1.30pm

KAC 301 - ADVANCED MANAGEMENT ACCOUNTING

INSTRUCTIONS TO CANDIDATES

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

QUESTION ONE (30 MARKS)

a) Differentiate between financial accounting and management accounting (2 marks)

b) Non-financial performance measurement is deemed to be more important that financial performance measurement. Discuss the position you would take with regard to the above assertion. (8 marks)

c) A company has provided the following information concerning the output and total cost.

Output	Total cost
15	180
12	140
20	230
17	190
12	160
25	300
22	270
9	110
18	240
30	320

Required:

i) Compute the total cost function (5 marks)

ii) Compute the coefficient of correlation and coefficient of determination and interpret (10 marks)

iii) Elucidate the assumptions of the regression model (5 marks)

QUESTON TWO (20 MARKS)

Bahati limited manufactures three products whose average annual sales units are as provided below:

Product	Sales units '000'
A	500
B	1,000
C	400

- The unit selling price of product A and B are sh. 30 and sh. 20 respectively
- Product A and B have variable cost to sales ratio of 40%
- Product C has a contribution margin ratio of 37.5% and variable cost of sh. 25 per unit.
- The company intends to increase the expenditure on promotion and advertising on product A by Sh. 800,000 and reduce its selling price to either sh. 25 or sh. 20. the estimated sales increase as a result of the reduction in price will be 800,000 units and 1,200,000 units for unit selling price of sh. 25 and sh. 20 respectively.
- Fixed costs are currently sh. 18,000,000

Required:

a) The breakeven sales in units (8 marks)

b) The profit function (4 marks)

c) Advice the management of the company on the price to adopt for product A given the promotion activity. (8 marks)

QUESTION THREE (20 MARKS)

a) Jasma limited is a manufacturer of clothing that sells its output directly to textile retailers. One of its departments manufactures sweaters. The department has a production capacity of 50,000 sweaters per month, because of its liquidation of one of its major customers, the company has an excess capacity for the next quarters.

Currently monthly production sales volume is expected to be 35,000 sweaters at a selling price of sh.40 per sweater. The expected cost and revenue for the next month at an activity level of 35,000 sweaters are as follows: -

	Total cost (Sh.)	**Unit Cost (Sh.)**
Direct labour	420,000	12
Direct material	280,000	8
Variable manufacturing overheads	70,000	2
Fixed manufacturing overheads	28,0000	8
Marketing and distribution costs	105,000	3
Total costs	115,5000	33
Sales	140,0000	40
Profit	245,000	7

Jasma Limited expected an increase in demand and considered that the excess capacity is temporary. Kula Kona hotel has offered to buy for its staff 3,000 sweaters each month for the next three month at a price of sh. 20 per sweater. The hotel will collect the sweaters at a price from the company and thus no marketing and distribution cost will be incurred. Company labour force would be used to produce for the special order with no extra cost. No subsequent sales to this customer are anticipated. Kula Kona would require its logo be inserted on its sweaters and the manufacturing company has predicted that this would cost sh.1 per sweater.

Required:

Should the company accept the offer from Kula Kona hotel?

(10 Marks)

b) Define the following terms as used in Management accounting

i) Responsibility center

(2 marks)

ii) Profit center

(2 marks)

iii) Decentralization

(2 marks)

iv) Break-even point

(2 marks)

v) Sunk cost

(2 Marks)

<u>QUESTION FOUR (20 MARKS)</u>

a) A division sells a single product with an annual fixed cost of sh. 70 million and variable cost per unit of sh. 7,000. the current selling price has been set at sh. 16,000 per unit and this price, 10,000 units are demanded per year.
It is estimated that for every increase in price of sh. 500, demand will be reduced by 500 units. Alternatively, for every sh. 500 reduction in price demand increases by 500 units.

Required:

Determine the optimal output and selling price assuming

i) Profit is to be maximized

(8 marks)

ii) Revenue is to be maximized

(8 marks)

b) Highlight at least Four assumptions of CVP (Cost volume profit) analysis.

(4 marks)

<u>QUESTION FIVE (20 MARKS)</u>

a) ABC Ltd. is a manufacturing company that produces paper products. The company has recently become aware of the environmental impact of its operations and has decided to implement an Environmental Management Accounting (EMA) system. Describe how green accounting would be applicable in the company.

(10 marks)

b) Define Kaizen costing and describe at least its five benefits to an organization.

(10 marks)