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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATIONS, 2024/2025 ACADEMIC YEAR**  
**SECOND YEAR, FIRST SEMESTER EXAMINATION**  
**FOR MASTER IN BUSINESS ADMINISTRATION (ACCOUNTING OPTION)**

**KAC 3203: ADVANCED MANAGEMENT ACCOUNTING**

**DATE: 9<sup>TH</sup> DECEMBER, 2024**  
**TIME: 11:00 AM – 2:00 PM**

**INSTRUCTIONS TO CANDIDATES**

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

**QUESTION ONE: COMPULSORY (40 MARKS)**

**CASE STUDY**

**KENYA PRIVATE SECTOR ASSOCIATION (KEPSA) WORKSHOP**

The Kenya Private Sector Association workshop was arranged by the Chief Executive Officer to bring together all stakeholders due to the business challenges being faced which were of the short-term, medium-term and long-term nature. One aspect that arose was the confusion in the economy that makes proper budgetary planning and control to be quite challenging. Some of the present members claimed that they have hardly achieved the budgetary objectives for the last three years.

“To enhance performance, it is critical to monitor operations on a continuous basis. Performance measurement systems in organizations bring on board insightful information for decision making. Getting the right alternative performance measures would also add value” Mr John Shitakha from the hospitality industry emphasized. This was well supported by others running hotels along the coast of Kenya but slightly expressed fear moving forward.

The KEPSA CEO had to add that there are a number of changes that also may make it difficult to forecast future events. The CEO urged that they should all consider such changes that indeed in most cases are very unpredictable. She further encouraged members to embrace learning curve in their operational planning endeavours. One participant took members through an example of learning curve effect in his production business. He said that there was an 80% learning curve when the first unit of output of a new product required 100 hours. An 80% learning curve applies. Most participants however expressed reservations on applying the learning curve theory.

Cost information play a big role in assisting managers make decisions for effective operations. Amongst key elements in cost accounting is the use of standard costing systems. Participants in the workshop were asked to structure the costing systems in line with the underlying unique circumstances at play. The workshop brought to light very many advantages of costing systems. Matters to do with investment analysis were also covered especially important to expanding companies locally, regionally and continentally. Setting up cost centers, profit centers and investment centers are useful for monitoring divisional and overall business performance. It was noted in addition that Value Added Statements are equally important. More emphasis was put on normal and abnormal losses which usually take place in business. An illustration was presented where in one sector, a business requires 15,400 units of production in a period and each unit uses 5kg of raw materials. The production process has normal loss of 10% during the production process. Such losses require proper accountability. The workshop had one of the conclusions being the need for flexibility in the

current uncertain environment. Being aware of possible happenings and risks can assist in effective budgeting by use of flexible budgets.

**You are required to:**

- i). Budgets and various controls have to be put in place by KEPSA members to ensure performance good performance of their entities. Explain the various purposes of budgetary systems ( 5 Marks )
- ii). Mr Shitakha emphasized the need for alternative performance measures within the Private Sector. You are required to clearly outline alternative performance measures ( 5 Marks )
- iii). One aspect discussed at the workshop is the unpredictable changes that affect forecasting in the business sector. You are required to explain these unpredictable changes. ( 5 Marks )
- iv). The learning curve theory is not easily applied by business managers in the industry. You are required to compute the cumulative average time required per unit up to the 4<sup>th</sup> unit according to the deliberation in the workshop ( 5 Marks )
- v.) One aspect highlighted in the workshop proceedings is the control function. Explain the advantages of standard costing systems ( 5 Marks )
- vi.) Cost centers, profit centers and investment centers are useful in business management as explained in the case. However, Value Added Statements are equally very key. You are required to explain advantages of Value Added Statements ( 5 Marks )
- vii). Normal losses during production were discussed and some numbers provided in the workshop. What is the total amount of the raw material required for the particular period? ( 5 Marks )
- viii). Frequent and unpredictable changes in a business environment as highlighted requires flexibility in business management. You are required to discuss factors to consider when preparing flexible budgets ( 5 Marks )

**QUESTION TWO: (20 MARKS)**

One main aspect of focus within all the operations of a successful organization is effective controlling or minimization of costs. The following data relates to Webuye International Paper Mills Limited which process a single data type of a chemical. Overhead processing cost for the last 13 accounting periods each of four weeks has been as follows.:

Period	(X) Output Unit (000)	(Y) Overhead Sh (000)
1	120	770
2	150	820
3	160	810
4	170	830
5	200	960
6	170	900
7	200	940
8	200	950
9	180	940
10	160	870
11	140	800
12	150	820
13	140	790
	2,140	11,200

**Required:**

- i.) Compute values of  $xy$ ,  $x^2$  and  $y^2$  ( 9 Marks )
- ii.) Device a formula to assist in the preparation of an overheads forecast for upcoming years ( 6 Marks )
- iii.) By showing its importance, determine the Coefficient of correlation ( $r$ ) ( 3 Marks )
- iv.) As you explain its use, compute the Coefficient of determination ( $r^2$ ) ( 2 Marks )

**QUESTION THREE: (20 MARKS)**

- a). Senior Managers in any large corporate company are pre-occupied with improvements across all levels and therefore focuses on optimal performance on a continuous basis. However, it can occasionally turn out not to be easy. You are required to clearly explain the limitations of learning curve theory ( 6 Marks )
- b). Setting standards may sometimes not be that smooth. The standards may be in regard to sales revenue, costs, profit margin amongst many others. You are required to clearly explain some of the problems that may be incurred during setting of standards for management control purposes ( 6 Marks )
- c). Changes in cost structures, the competitive environment and the manufacturing environment have led to an increased use of non-financial performance indicators (NFIs). You are required to explain reasons for a growing emphasis on Non-Financial Performance Indicators (NFPis) ( 8 Marks )

**QUESTION FOUR: (20 MARKS)**

a.) Kasuku Company Ltd manufactures a broad range of engines for commercial products. At its Kenyan plant it assembles power saw engines and lawnmower engines.

Information on these products is as follows:

Engine type	Power saw engines	Lawnmower engines	Motor bike Engines
Selling price	Ksh 80,000	Ksh 100,000	Ksh 125,000
Variable cost per unit	Ksh 56,000	Ksh 62,500	Ksh 75,000
Contribution per unit	Ksh 24,000	Ksh 37,500	Ksh 50,000
Contribution margin percentage (Ksh 24/80; 50/125 & 37.5/100) in (000)	30%	37.5%	40%
Estimated daily demand in units	60	60	60

Assume that only 600 machine hours are available daily for assembling engines, additional capacity cannot be obtained in the short run. The limiting factor is machine hours. It takes 2, 5 and 5 machine hours produce one power saw, one lawnmower and one motor bike engine respectively.

**Required:**

- i) Key terms are critical in management accounting. Explain a product mix ( 3 Marks )
- ii) Advise on the product mix that should be produced during the period ( 7 Marks )

b.) Sosio Construction Company Limited has accepted three road rehabilitation jobs from the County Government of Kajiado to which they allocated no.1, 2, and 3.

Job	1	2	3
Direct material	70,000	130,000	250,000
Direct wages	90,000	140,000	150,000
Direct expenses	14,000	14,000	6,000

Based on the company's policies, you have noted that overheads are absorbed as follows:

- i) Production overhead is 100% on direct wages
- ii) Administration overheads is 25% on prime cost
- iii) Selling and distribution is 5% on factory cost

**Required:**

- i) A factory has to treat costs correctly for pricing purposes. Explain overheads ( 3 Marks )
- ii) Show the total cost chargeable to each job ( 7 Marks )

**QUESTION FIVE: (20 MARKS)**

Assume that a company has 3 subsidiaries A, B, and C and that the company does not allocate corporate headquarters' costs or interest on long term debt to the subsidiaries.

Summary of the results are as follows.

	£ '000'	£ '000'	£ '000'	£ '000'	£ '000'
	A	B	C	H	Total
Operating income	240	300	480		1020
Variable cost of H				80	
Fixed costs of H				120	
Interest on L.T debt				400	(600)
Income before taxation					420
Taxes					150
Income after taxation					270
Average book values:					
Current assets	400	500	600	200	1700
Fixed assets	600	1500	2400	300	4800
					6500

**Required:**

- a.) The company is keenly watching on the returns of its subsidiaries as well itself as a whole. You are required to compute the Return on Investment for subsidiaries A,B,C and overall Company( 6 Marks )
- b.) The company finances the acquisition of assets with various sources of funds. You are required to compute residual income assuming that the company requires a 10% interest on total assets of each subsidiary ( 6 Marks )
- c.) It has emerged that there is an asset available to subsidiary A which costs £ 100,000 but which has an annual profit of £ 20,000. You are required to advise the manager of A on whether to undertake the project and comment on whether this decision is in line with the overall objective of the organization ( 8 Marks )