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KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2020/2021 ACADEMIC YEAR
MAIN EXAMINATION

COURSE CODE: DAB 104

FOR DIPLOMA IN BUSINESS MANAGEMENT

COURSE TITLE: MANAGEMENT ACCOUNTING

DATE: 20TH JULY, 2021

TIME: 2.00PM – 4.00PM

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other TWO (2) Questions in Section B

TIME: 2 Hours



KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 5 Printed Pages. Please Turn Over.

Answer question **one** and any other **two** questions

QUESTION ONE (30MKS)

a) Bungoma Ltd makes four components for which costs in the coming year are:

PRODUCT

	A	B	C	D
Production(Units)	1000	2000	4000	3000
	Kshs.	Kshs.	Kshs.	Kshs.
Direct materials	4000	10000	12000	10000
Direct labour	8000	18000	14000	16000
Variable costs	2000	6000	2000	10000
Total variable cost/ unit	14	17	7	12

Directly attributable fixed costs

To : Product

- A- Kshs. 1000
- B- Kshs. 5000
- C- Kshs. 6000
- D- Kshs. 8000

Subcontractor's price

- A- Kshs. 12
- B- Kshs. 21
- C- Kshs. 10
- D- Kshs. 14

Committed fixed costs= Kshs. 30,000

Required:

- a) Advise the company whether to buy or make the component(15mks)
- b) Explain the good qualities of management accounting information(5mks)
- c) Explain briefly the following cost concepts (5mks)
 - i) Direct costs
 - ii) Sunk cost

- iii) Variable costs
- iv) Opportunity cost
- v) Relevant cost
- d) Briefly discuss the disadvantages of imposed budgets (5mks)

QUESTION TWO (20MKS)

a) Traditional budgeting systems are incremental in nature and tend to focus on cost centers. Activity based budgeting (ABB) links strategic planning to the overall performance measurement aimed at continuous improvement.

Required:

Explain the weakness of traditional incremental budgeting systems. (4mks)

b) Describe the main feature of activity based budgeting system and comment on its advantages. (8mks)

c) Identify and explain four types of decision making environments. (8mks)

QUESTION THREE (20MKS)

a) Differentiate between a feedback control system and a feed forward control system (4mks)

b) In his study of: "the impact of budgets on people" C Argyris reported the following comment by a financial controller on the practice of participation in setting budgets in his company: "We bring in the supervisors of budget areas, we tell them that we want their frank opinion, but most of them just sit there and nod their heads. We know they are not coming out with exactly what they feel. I guess budget scares them". Explain why managers may be reluctant to participate fully in setting budgets, indicating the negative side effects, which may arise from the imposition of budgets by senior management. (10mks)

c) A critic has suggested that budgets should be abolished because they introduce rigidity and hamper creativity. Discuss. (6mks)

QUESTION FOUR (20MKS)

“Control theory offers valuable insights into the design and operation of management accounting information systems, but only under circumstances where an organizations’ environment is stable and predictable and outcomes are clearly measurable.”

Required:

Comment on the relevance and validity of this statement within the analysis or established control theory systems within a business organization.