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*(Knowledge for Development)*

**KIBABII UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2022/2023 ACADEMIC YEAR**

**DIPLOMA FIRST YEARS SECOND SEMESTER**

**MAIN EXAMINATION**

**FOR THE DIPLOMA IN BUSINESS MANAGEMENT**

**COURSE CODE: DAB 104**

**COURSE TITLE: MANAGEMENT ACCOUNTING**

**DATE: 13TH APRIL, 2023**

**TIME: 9.00AM – 11.00AM**

**INSTRUCTIONS TO CANDIDATES**

1. Answer a total of **three** questions; question **one** and any other **two** questions.
2. Question **one** carries **30** marks and each of the other two questions carry **20** marks each.

**TIME: 2 Hours**

## SECTION A

### QUESTION ONE

- (a) Financial accounting is the branch of accounting that organizes accounting information for presentation to interested parties outside the business. Management accounting on the other hand uses information provided by the financial accounting with the purpose of providing information to managers for policy formulation, planning and decision-making.

**Required:**

With regard to the above statements, describe four differences between management accounting and financial accounting. (8 marks)

- (b) Highlight four purposes of cost classification in an organization. (4 marks)  
(c) Explain four assumptions of break-even analysis. (4 marks)  
(d) Summarize four functions of a budget committee. (4 marks)  
(e) Business unit A earns a profit of Ksh. 1,000,000 with an investment of Ksh. 5,000,000 while business unit B earns a profit of Ksh. 1,500,000 with an investment of Ksh. 10,000,000.

**Required:**

Calculate and compare the residual income of the two business units if:

- (i) The desired rate of return is 9%. (5 marks)  
(ii) The desired rate of return is 17%. (5 marks)

### Section B

### QUESTION TWO

- (a) Discuss four advantages of regression method of cost estimation. (4 marks)  
(b) The production manager of Dosi Company is concerned about the apparent fluctuation in efficiency and wants to determine how labour costs are related volume. The following data presents results of the 12 most recent weeks:

Week	Units produced	Labour costs (Shs)
1	34	340
2	44	346
3	24	287
4	36	262
5	30	220
6	49	416
7	39	337
8	21	180
9	41	376
10	47	295
11	34	215
12	24	275



**Required:**

Estimate the cost function using:

- i. Regression analysis. (8 marks)
- ii. Assume the company intends to produce 45 units and 34 units in the next period. Estimate the labour cost to be incurred. (8 marks)

**QUESTION THREE**

The management of Wazo Ltd are contemplating investing in a new plant. This will involve replacing an existing plant which was acquired 3 years ago for sh. 7 million with an expected useful life of 8 years and salvage value of sh. 800,000. If replaced, the machine can be sold for sh. 2,000,000. The new machine will cost sh. 8,500,000 and has expected useful life of 5 years with a salvage value of sh. 1,000,000. The new machine is more efficient and will result in an increase in operating profit by sh. 1,000,000 per annum and a reduction in operating cost by sh. 600,000 per annum. The company uses straight line method of depreciation and is in the 30% tax bracket. The cost of capital is 12%.

Required:

- (a) Advise the management whether the old machine should be replaced. (15 marks)
- (b) Describe in brief the greatest difficulties faced in capital budgeting in the real world. (5 marks)

**QUESTION FOUR**

A small company produces only two sizes of frames for steel receivers; standard size and slim line. The accounting department has provided the following analysis of the unit profit.

	<b>Standard</b>	<b>Slim-line</b>
Selling price	Sh. 6	Sh. 4.2
Raw materials	Sh. 0.75 (1.5 units @ sh. 0.5/unit)	Sh. 0.50 (1 units @ sh. 0.5/unit)
Packaging	Sh. 0.25	Sh. 0.25
labor	0.4 hours	0.25 hours

Labor is considered a fixed cost as it is by salaried workers at the plant.

There are 350 units of raw materials and 300 packaging boxes available daily. Both products utilize the same packaging boxes. At most 10 workers (at 8 hours/day) will be assigned to this project. This problem was solved by the management scientists' software with part of the output shown below.

<b>Variable</b>	<b>Value</b>	<b>Reduced cost</b>
Standard	33.333	0.0
Slim line	266.667	0.0
<b>Constraint</b>	<b>Slack/Surplus</b>	<b>Dual price</b>
Raw materials	33.333	0.0
Packing boxes	0.0	1.0
Labour	0.0	10.0
Objective coefficient ranges		
<b>Variable</b>	<b>Lower limit</b>	<b>Upper limit</b>
Standard (C1)	3,500	5,600
Slim line (C2)	3,125	5,000

Right side ranges

<b>Constraint</b>	<b>Lower limit</b>	<b>Upper limit</b>
Raw materials	316.66	No upper limit
Packing boxes	200,000	320,000
Labour	75,000	90,000

**(a) Required:**

- (i) Formulate the above problem. (8 marks)
- (ii) Suppose simultaneously C1 changed to sh. 5.50 and C2 changed to sh. 4.00. Would the optimal solution change? (4 marks)
- (iii) What is the shadow price for man-hours? Interpret. (2 marks)
- (b) Define the following terms as used in linear programming:
  - i. Feasible solution. (2 marks)
  - ii. Transportation problem. (2 marks)
  - iii. Assignment problem. (2 marks)

**QUESTION FIVE**

- (a) Assume that you are planning to sell badges at the forthcoming Kakamega Show at sh. 9 each. The badges cost sh. 5 to produce and you incur sh. 2,000 to rent a booth in the show ground..

Required:

- (i) Compute the break-even point. (2 marks)
- (ii) Compute the margin of safety. (4 marks)
- (iii) Compute the number of units that must be sold to earn a before tax profit of 20%. (5 marks)
- (iv) Compute the number of units that must be sold to earn an after tax profit of sh. 1,640 assuming that the tax rate is 30%. (5 marks)
- (b) State four assumptions of cost-volume-profit (CVP) analysis. (4 marks)