



Riara School of Business
Nurturing business innovators

**JANUARY APRIL 2024 TRIMESTER EXAMINATIONS
DAY PROGRAMME
EXAMINATION FOR BACHELOR OF BUSINESS ADMINISTRATION
RAC 202: PRINCIPLES OF MANAGEMENT ACCOUNTING M/S**

DATE: APRIL 2024

TIME: 2 HOURS

GENERAL INSTRUCTIONS:

Students are NOT permitted to write on the examination paper during reading time.
This is a closed book examination. Text book/Reference books/notes are not permitted.

SPECIAL INSTRUCTIONS:

- 1 Write your REGISTRATION NO. Clearly on the answer booklet(s).
- 2 Answer Question One and ANY other TWO questions.
- 3 Questions in all sections should be answered in answer booklet(s).
- 4 Marks allocated to each question are shown at the end of the question.
- 5 PLEASE start the answer to EACH question on a NEW PAGE.
- 6 For the questions, write the number of the question on the answer booklet(s) in the order you answered them.
- 7 Write your answers in paragraph form unless stated otherwise.
- 8 Keep your phone(s) SWITCHED OFF at the front of the examination room.
- 9 Keep ALL bags and caps at the front of the examination room and do not refer to any unauthorized material before or during the course of the examination.
- 10 You are only allowed to leave the examination room 30minutes to the end of the Examination.

QUESTION ONE: COMPULSORY (30 MARKS)

- a) Explain the term responsibility accounting **(2 marks)**
- b) Describe **four** types of responsibility Centres in a corporation such as Coca Cola Ltd **(8 marks)**
- c) Assume that a clothing shop can purchase a blouse for Ksh.3,200 from China; other variable costs amount to Ksh. 1000 per unit. The supplier allows the clothing Shop to return all unsold blouses and receive a full Ksh 3,000 refund per blouse within one year. The average selling price per blouse is Ksh 7,000 and total fixed costs amount to Ksh 8,400,000

Required:

- i. How much revenue will the business receive if 2,500 units are sold
- ii. How much variable costs will the business incur. **(2 marks)**
- iii. What is the total contribution margin when 2,500 blouses are sold. **(2 marks)**
- iv. Determine the profit or loss when 2,500 blouses are sold **(2 marks)**
- Determine breakeven point in units and sales **(2marks)**
- v. Assume that management wants to have an operating income of Ksh. 16,000,000. What sales are needed to achieve this income. **(2 marks)**
- d) Explain **four** components of balanced scorecard **(10marks)**

QUESTION TWO

- a) ABC Ltd manufactures products X, Y and Z. Data on sales and expenses for the past month are as follows:

| | X | Y | Z |
|-----------------------------------|---------------|---------------|---------------|
| | Ksh | Ksh | Ksh |
| sales | 145000 | 500000 | 360000 |
| less variable costs | <u>60000</u> | <u>200000</u> | <u>150000</u> |
| contribution Margin | <u>85000</u> | <u>300000</u> | <u>210000</u> |
| less fixed costs | | | |
| advertising-traceable | 41000 | 110000 | 65000 |
| depreciation of special equipment | 20000 | 40000 | 35000 |
| line supervisor's salaries | 8000 | 7000 | 6000 |
| General factory overhead | 28000 | 100000 | 72000 |
| total fixed expenses | <u>95000</u> | <u>257000</u> | <u>178000</u> |
| Net operating profit | <u>-12000</u> | <u>43000</u> | <u>35000</u> |

Management is concerned about continued losses shown by product X and wants your recommendation as to whether or not the line should be discontinued. The special equipment used to produce product X has no resale value. If product X is dropped, the two-line supervisors assigned to the product would be discharged.

Required:

Should production and sale of product X be discontinued? You may assume that the company has no other use for the capacity now being used to produce Product X. Show your computations to support your answer. **(10 marks)**

- b) Describe **four** differences between financial accounting and management accounting

(10 marks)

QUESTION THREE

- a) Explain **four** ethical responsibilities of a management accountant **(8 marks)**

- b) Explain **four** differences between absorption Costing marginal costing methods

(10 marks)

- c) Explain the term transfer pricing

(2 marks)

QUESTION FOUR

Peace Ltd has planned production and sales for the next nine months as follows:

Production Sales

| | (units) | (units) |
|-----------|---------|---------|
| May | 350 | 350 |
| June | 400 | 400 |
| July | 500 | 400 |
| August | 600 | 500 |
| September | 600 | 600 |
| October | 700 | 650 |
| November | 750 | 700 |
| December | 750 | 800 |
| January | 750 | 750 |

Additional information

1. During the period, the business plans to advertise so as to generate these increases in sales. Payments for advertising of Ksh1,000 and Ksh1,500 will be made in July and October respectively.
2. The selling price will be Ksh20 a unit throughout the period. Forty per cent of sales are normally made on two months' credit. The other 60 per cent are settled within the month of the sale.
3. Raw material will be held in inventories for one month before it is taken into production. Purchases of raw materials will be on one month's credit (buy one month, pay the next). The cost of raw material is Ksh8 a unit of production.
4. Other direct production expenses, including labour, are planned to be Ksh6 a unit of production. These will be paid in the month concerned.
5. Various production overheads, which during the period to 30 June had run at Ksh1,800 a month, are expected to rise to Ksh2,000 each month from 1 July to 31 October. These are expected to rise again from 1 November to Ksh2,400 a month and to remain at that level for the foreseeable future. These overheads include a steady Ksh400 each month for depreciation.
6. Overheads are planned to be paid 80 per cent in the month of production and 20 per cent in the following month.
7. To help to meet the planned increased production, a new item of plant will be bought and will be delivered in August. The cost of this item is Ksh6,600; the contract with the supplier will specify that this will be paid in three equal amounts in September, October and November.
8. Raw material inventories are planned to be 500 units on 1 July. The balance at the bank on the same day is planned to be Ksh7,500.

Required:

- i.** Payables budget for the six months ending 31 December **(8 marks)**
- ii.** prepare a cash budget for the six months ending 31 December **(12 marks)**