



**RIARA SCHOOL OF BUSINESS**

***NURTURING INNOVATORS***

**SEPTEMBER –DECEMBER 2022 TRIMESTER**

**EXAMINATION FOR BACHELOR OF BUSINESS ADMINISTRATION**

**DAY / EVENING PROGRAMME**

**UNIT CODE - RAC 405; UNIT TITLE - CASES IN MANAGEMENT ACCOUNTING**

**DATE: \_\_\_\_\_**

**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 30 minutes to the end of the Examination.

**QUESTION ONE (COMPULSORY (30 MARKS))**

(a) XYZ Engineering Works is small company with limited capital equipment required for production. Currently it can produce three products X, Y and Z using mainly one multi-purpose machine. The productive time available on the multi-purpose machine is 20 hours per day on average. Each of the three products require multi-purpose machine in their production as follows:

<u>Product</u>	<u>Machine time</u>
X	5 minutes per unit
Y	8 minutes per unit
Z	12 minutes per unit

The details of product price and variable costs are as follows:

	Product X	Product Y	Product Z
	Kshs	Kshs	Kshs
Price	50	50	60
Direct Material	20	25	30
Direct labour	10	12	15

Overheads which are all basically fixed are budgeted at Kshs. 360,000 per year of 300 working days. Overheads are allocated on multi-purpose machine hour basis.

**Required:**

- (i) Total annual profits when the available multi-purpose machine time is shared equally by the three products **(10 Marks)**
- (ii) The order of profitability of the three products in terms of the limited multi-purpose machine time **(2 Marks)**
- (b) Evaluate the role of the management accountant in the management process **(8 Marks)**
- (c) There are arguments that cost-volume-profit (CVP) analysis is at best abstract and theoretical, with no relationship to reality. Comment on the above statement and highlight

five assumptions on which the CVP analysis based.

(10 Marks)

## QUESTION TWO

(a) Explain **three** advantages of using activity based costing (ABC) (6 Marks)

(b) A company manufactures two products, C and D, for which the following information is available:

	Product C	Product D	Total
Budgeted production (units)	1,000	4,000	5,000
Labour hours per unit/total	8	10	48,000
Number of production runs required	13	15	28
Number of inspections during production	5	3	8

Total production set up costs Shs.140, 000  
Total inspection costs Shs. 80,000  
Other overheads costs Shs. 96,000  
Other overhead costs are absorbed on the basis of labour hours

### Required:

Using the activity based costing, compute the budgeted overhead cost of each product

(8 Marks)

(c) Evaluate the Balanced Score Card and explain the **four** perspectives from which performance is measured (6 Marks).

## QUESTION THREE

a) Evaluate the **three** types of decision making environments (6 Marks).

- b) As the Management Account in a Company, you are required to assess the viability of a future development project and select the most promising one. Three alternatives are being considered, each of which has several outcomes with associated probabilities as shown below:

Alternative A Outcomes		Alternative B Outcomes		Alternative C Outcomes	
Probability	Contribution	Probability	Contribution	Probability	Contribution
	Kshs		Kshs		Kshs
		0.1	2,500		
0.2	6,000	0.2	5,000	0.4	8,000
0.6	10,000	0.4	9,000	0.6	11,500
0.2	12,500	0.2	11,500		
		0.1	16,000		

**Required:**

- (i) Calculate the expected values from each alternative (12 Marks).
- (ii) Show the ranking of the outcomes in order of preference (2 Marks).

**QUESTION FOUR**

The following information was extracted from the books of RST limited, an organization which started trading in the year 2020

Month	Sales (Kshs)	Purchases (Kshs)
April	150,000	100,000
May	160,000	110,000
June	160,000	90,000
July	170,000	90,000
August	200,000	80,000
September	200,000	130,000

October	180,000	140,000
November	180,000	60,000
December	200,000	60,000

The following additional information is available:

- a) Cash in hand at the end of May 2021 will be Kshs. 180,000
- b) 60% of the sales proceeds are received in the current month, 30% in the following month and the balance is received two months after sales
- c) Suppliers are paid one month after delivery
- d) Corporation tax for the year 2020 amounting to Kshs. 20,000 will be paid on 30<sup>th</sup> September 2021
- e) Contractors retention monies amounting to Kshs. 50,000 will be paid on 30<sup>th</sup> June 2021
- f) The shareholders at their last extraordinary general meeting increased the share capital by Kshs. 70,000 and the first call of Kshs. 40,000 will be received in October 2021
- g) In October 2021, the company is due to receive Kshs. 20,000 as compensation for a civil suit
- h) The monthly administration expenses amounting to Kshs. 33,000 include factory depreciation charge of Kshs. 4,000 and preliminary expenses of Kshs. 3,000
- i) Office equipment worth Kshs. 13,000 will be paid for in December 2021.

**Required:**

Prepare a cash budget for the period 1<sup>st</sup> June to 31<sup>st</sup> December 2021

**(20 marks)**