PAN AFRICA CHRISTIAN UNIVERSITY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

SEPTEMBER-DECEMBER 2024

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS

COURSE CODE: CAC301|BUA3113

COURSE TITLE: MANAGEMENT ACCOUNTING

EXAM DATE:

TIME:

INSTRUCTIONS

- This examination script consists of **SIX (6)** questions.
- Answer question **ONE** and ANY other **THREE** Questions.
- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.

Question One (compulsory) **(10 marks)**

Managing a business or any other type of organisation in today's environment is complex and can only be achieved by managers continuously making a series of complex decisions, all of which are interrelated. Discuss **five** factors that need to be taken into account before managers make decisions. Give relevant examples on each. (10 Marks)

Question Two **(10 marks)**

ABC Ltd has two factories, Kisumu and Busia, both of which produce product KB 90. Busia occupies a company-owned freehold factory; the Kisumu factory is leased.

The lease for the Kisumu factory is now due for renewal and, if the proposed terms are accepted, the rental will increase by Kshs. 15,000 per annum. The company's head office costs are allocated to factories on the basis of sales value. The following sales and costs apply to the budgeted results for the year before the rental increase.

	Busia	Kisumu	Head Office	Total

Sales *(units)*	30,000	20,000	–	50,000
	Kshs	*Kshs*	*Kshs*	*Kshs*
Sales	600,000	400,000	–	1,000,000
Variable costs				
Materials	120,000	80,000	–	200,000
Direct wages	180,000	110,000	–	290,000
Variable manufacturing overheads	60,000	30,000	–	90,000
	360,000	220,000	–	580,000
Fixed costs				
Rent	–	40,000	5,000	45,000
Depreciation	60,000	20,000	10,000	90,000
Other fixed overheads	70,000	60,000	65,000	195,000
Total costs	490,000	340,000	80,000	910,000

If the lease of the Kisumu factory is not renewed, the production facilities at the Busia factory can be expanded to cover the loss of production from Kisumu. To produce the additional output, new plant and equipment will be required which will cost *Kshs* 200,000. The additional plant would be depreciated over a five-year period on the straight-line basis with no residual value anticipated. The purchase would be financed by a loan, bearing interest at 10% per annum.

Additional selling and distribution costs of *Kshs* 0.20 per unit sold will be incurred on sales made to customers at present in the territory covered by East.

The expansion of the Busia factory would cause its fixed costs to rise by 40%. Head office costs would not be affected. Variable manufacturing costs would be based on the present unit costs incurred by Busia.

Receipts from the sale of plant and equipment would cover closure costs of the Kisumu factory.

Required:

(a) Give calculations to show which alternative would be more profitable. (8 marks)

(b) Show the return on the additional investment if all manufacturing is carried out at the West factory. (2 marks)

Question Three (10 marks)

Differentiate between the following pricing strategies using relevant examples:

i. Full Cost-Plus Pricing and Marginal Cost -Plus Pricing (2 marks)

ii. Competitive Pricing and Market Forces Pricing (2 marks)

iii. Loss Leaders and Discriminating Pricing (2 marks)

iv. Market Penetration and Market Skimming (2 marks)

v. Minimum Pricing and Limiting Factor Pricing (2 marks)

Question Four (10 marks)

Venture Ltd produces two products – X and Y. The products pass through two departments – department 1 and department 2.

The following standards have been prepared for direct materials and direct wages:

	Product	
	X	**Y**
Material A	5 kg	8 kg
Material B	4 kg	9kg
Direct labour:		
Department 1	3 hours	2 hours
Department 2	2 hours	4 hours

The standard costs for direct material and direct labour are as follows:

Material A: shs. 2.00 per kg

Material B: shs.1.20 per kg

Direct labour: Department 1 shs. 3.00 per hr

Department 2 shs. 3.50

per hr

Standard selling prices are:

Product X: £50.00 perunit

Product Y: £80.00 perunit

The budgeted sales for each product for the coming year are: Product X: 8,000 units

Product Y: 10,000 units

The company plans to increase the stocks of finished goods, so that the closing stock of product X will be 2,000 units and the closing stock of product Y will be 3,000 units.

Opening stocks of finished goods

are: Product X: 1,000 units

Product Y: 2,000 units

Finished goods are valued at variable production cost.

Opening stocks of direct material are:

Material A: 12,000kg
Material B: 15,000kg

The required closing stocks of materials are: Material A: 19,000 kg

Material B: 15,000 kg.

Required:

Calculate:

a. Sales budget (3 marks)

b. Production budget (2 marks)

c. Materials purchases budget (3 marks)

d. Direct materials cost budget (2marks)

Question Five (10 marks)

Discuss the following types of budgets using relevant examples:

a. Flexible budgets (2 ½ marks)

b. Zero based budget (2 ½ marks)

c. Activity based budget (2 ½ marks)

d. Incremental Budgets (2 ½ marks)

Question Six (10 marks)

Stomer Cakes bake and sell a single type of cake. The variable cost of production is 15c and the current sales price is 25c. Fixed costs are shs. 2,600 per month, and the annual profit for the company at current sales volume is shs. 36,000. The volume of sales demand is constant throughout the year. The sales manager, Ian Digestion, wishes to raise the sales price to 29c per cake, but considers that a price rise will result in some loss of sales.

Required

a. Ascertain the minimum volume of sales required each month to raise the price to 29c. (5 marks)

b. Discuss sensitivity analysis using suitable example. (5 marks)