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**TECHNICAL UNIVERSITY OF MOMBASA**  
**SCHOOL OF BUSINESS**  
**DEPARTMENT OF ACCOUNTING AND FINANCE**  
**UNIVERSITY EXAMINATION FOR**  
**DIPLOMA IN ACCOUNTING**  
**DIPLOMA IN BUSINESS ADMINISTRATION**  
**BAC 2202: MANAGEMENT ACCOUNTING**  
**MAIN EXAMINATION**

**SERIES:** APRIL 2025

**TIME:** 2 HOURS

**INSTRUCTION: ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS.**

**Question ONE**

- a) "Because information produced by management accountants must be judged in the light of its ultimate effect on the outcome of decisions, a necessary precedent to an understanding of management accounting is an understanding of the decision-making process."

**Required:**

Discuss the decision-making process.

(20 marks)

- b) Identify and explain the major differences between management accounting and financial accounting.

(10 marks)

**(Total = 30 marks)**

**Question TWO**

BS Limited manufactures one standard product and operates a system of variance accounting using a fixed budget. As assistant management accountant, you are responsible for preparing the monthly operating statements, Data from the budget, the standard product cost and actual data for the month ended 31 July are given below.

Using the data given, you are required to prepare the operating statement for the month ended 31 July to show the budgeted profit; the variances for direct materials, direct labour, overhead and sales, each analysed into causes; and actual profit.

Budgeted and standard cost data:

Budgeted sales and production for the month: 10,000 units.

Standard cost for each unit of product:

Direct material X : 10 Kg at sh.100 per Kg.

Y : 5 Kg at sh.500 per Kg.

Direct Labour 5 hours at sh.300 per hour

Fixed production overhead is absorbed at 200% of direct labour.

Budgeted sales price has been calculated to give a profit of 20% of sales price.

Actual data for month ended 31 July.

Production: 9500 units sold at a price of  
10% higher than that budgeted

Direct Materials consumed:

X : 96,000 Kg at sh.120 per Kg.

Y : 48,000 Kg at sh.470 per Kg.

Direct Labour incurred 46,000 hours at sh.320 per hour.

Fixed production overhead incurred sh.29 million. **(20 marks)**

### Question THREE

- (a) What is meant by the term decentralization? (3 marks)
- (b) What benefits result from decentralization? (3 marks)
- (c) Distinguish between a cost centre, a profit centre, and an investment centre. (6 marks)
- (d) The Magnetic Imaging Division of Medical Diagnostics Ltd, has reported the following results for last year's operations:

Sales	Sh.250 million
Net Operating Income	30 million
Average Operating Assets	100 million

**Required:**

- (i) Compute the margin, turnover, and ROI for the magnetic Imaging Division. (4 marks)
  - (ii) Top management of Medical Diagnostics Ltd, has set a minimum required rate of return on average operating assets of 25%. What is the Magnetic Imaging Division's residual income for the year? (4 marks)
- (Total=20 marks)**

**Question FOUR**

Practitioners of management accounting and financial management have an obligation to the public, their profession, the organization they serve, and themselves, to maintain the highest standards of ethical conduct. In recognition of this obligation, the Institute of Chartered Management Accountants has promulgated the standards of ethical conduct for practitioners of management accounting and financial management. Adherence to those standards, both domestically and internationally, is integral to achieving the objectives of Management Accounting.

**Required:**

- (a) Discuss standards of Ethical Conduct for Practitioners of Management Accounting. (12 marks)
- (b) In applying the standards of ethical conduct, practitioners of management accounting may encounter problems in identifying unethical behaviour or in resolving an ethical conflict. What courses of action should practitioners consider when faced with significant ethical issues? (8 marks)

**(Total=20 marks)**

**Question FIVE**

TUMAINI CO. Ltd values, advertises and sells residential property on behalf of its customers. The company has been in business for only a short time and is preparing a cash budget for the first four months of 20X6. Expected sales of residential properties are as follows:

	20X5	20X6	20X6	20X6	20X6
Month	December	January	February	March	April
Units sold	10	10	15	25	30

The average price of each property is sh.18million and Tumaini Co charges a fee of 3% of the value of each property sold. The company receives 1% in the month of sale and the remaining 2% in the month after sale. The company has 9 employees who are paid on a monthly basis. The average salary per employee is sh.3.5million per year. If more

than 20 properties are sold in a given month, each employee is paid in that month a bonus of sh.14,000 for each additional property sold.

Variable expenses are incurred at the rate of 0.5% of the value of each property sold and these expenses are paid in the month of sale.

Fixed overheads of sh.430,000 per month are paid in the month in which they arise.

Tumaini Co. Ltd pays interest every 3 months on a loan of sh.20million at a rate of 6% per year. The last interest payment in each year is paid in December.

An outstanding tax liability of sh.9,580,000 is due to be paid in April. In the same month Tumaini Co. Ltd intends to dispose of surplus vehicles, with a net book value of sh.1.5 million, for sh.2million. The cash balance at the start of January 20X6 is expected to be a deficit of sh.4million.

**Required:**

Prepare a monthly cash budget for the period from January to April 20X6. Your budget must clearly indicate each item of income and expenditure, and the opening and closing monthly cash balances.

**(20 marks)**