



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

UNIVERSITY EXAMINATION FOR:

BACHELOR OF COMMERCE/BACHELOR OF BUSINESS ADMINISTRATION

BAC 4407 ISSUES IN MANAGEMENT ACCOUNTING

END OF SEMESTER EXAMINATION

SERIES: AUGUST, 2024

TIME: 2 HOURS

Instructions to Candidates

You should have the following for this examination.

-Answer Booklet, examination pass and student ID

This paper consists of **FIVE** questions. Attempt question ONE (Compulsory) and any other TWO questions.

Do not write on the question paper.

Gamba Ltd a chain stores organization has several branches in all the ten Town towns in Lamu. Each branch has a manager who reports directly to the General Manager whose office is in Kisimayu.

Since 2021, each branch manager prepares a budget as part of the company's annual budgeting process. You have just been appointed as General Manager and you are concerned about the validity of these annual budgets. You feel that the branch managers will overstate their costs and resource requirements in order to make it easier for them to achieve their budget targets.

Required:

- a) Explain the differences between the above annual budgeting system and a rolling budget system. (6 marks)



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- b) Describe the problems that could arise, for planning and decision-making purposes within Gamba, if the branch managers did overstate their budgeted costs and resource requirements. (6 marks)
- c) Discuss the behavioural issues that could arise if excess costs and resources are removed from the branch managers' budgets. (6 marks)

Gamba Ltd sells a variety of items among them three popular products.

The following data is available for Papa, Gonda and Kipugu:-

Product	Budget		
	Papa	Ngonda	Kipugu
Sales units	12,000	16,800	19,200
Selling price per unit	K 0.75	K 0.80	K 0.35
Variable cost per unit	K 0.38	K 0.45	K 0.23
Product	Actual		
	Papa	Gonda	Kipugu
Sales units	12,800	18,400	17,400
Selling price per unit	K 0.71	K 0.84	K 0.39
Variable cost per unit	K 0.35	K 0.46	K 0.24

Required:

- (i) Calculate the total sales mix contribution variance. (6marks)
- (ii) Calculate the total sales quantity contribution variance. (6marks)

Question TWO

Kazi Nzuri motors Ltd produces a single article for sale and has the following cost, production and sales data.

	2021	2022	2023
Selling price per unit	20	20	20
Variable manufacturing cost per unit	10	10	10
Total fixed manufacturing cost	5000	5000	5000
Opening stock			500
Units produced	1000	1500	2000
Units sold	1000	1000	1500
Closing stock		500	1000



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Required:

Prepare comparative income statement for three years under

- (i) Absorption costing method (10marks)
- (ii) Marginal costing method (10marks)

Indicate the unit cost for each year under each method. Also evaluate the closing stocks

Question THREE

The operating statement relating to the latest financial year of Maziwa Manufacturing Limited is as follows:

	sh'000	sh'000
Sales (22,000 units)		3,300
Direct materials	726	
Direct labour	374	
Production overheads	798	
		(1,898)
Gross profit		1,402
Selling overheads		(1,042)
Net profit		360

The variable production overheads were sh9 per unit while the variable selling overheads were sh11 per unit.

Required:

(a) Calculate the contribution margin per unit and the margin of safety in units for the latest financial year. (6marks)

(b) The company has a capacity of 30,000 units per year. Management is not happy with the financial performance for the last year, and two courses of action for the coming year were proposed in the recent management meeting.

(i) The Sales Manager believed that unit volume would increase by 30% with the incurrence of sh200,000 on advertising. (6marks)



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(ii) The General Manager considered that full capacity could be reached if the selling price were cut by 10%. In addition, the direct material cost would be reduced by 5% following a minor modification of the specification of the product. (8marks)

Prepare the budgeted operating statement for the coming year in columnar format, using a contribution margin approach, under each alternative.

Question FOUR

- (a) Kurawa Limited is a highly geared company based in Eastern part of Gongoni. Under its new strategic plan, it is clear that it wishes to expand its operations. The company has six possible capital investments which have been identified, and the Finance Director has put it clearly that they only have access of sh3,100,000. He has made it clear that the projects are not divisible and may not be postponed until a future period. After the projects end it is unlikely that similar opportunities will occur.

During the Management Meeting, the Finance Director provided the following information with regard to the six projects' expected net cash inflows for a five year period.

Project	Expected net Cash inflows (including Salvage values)					
	Initial Outlay	Year 1	Year 2	Year 3	Year 4	Year 5
	sh'000	sh'000	sh'000	sh'000	sh'000	sh'000
U	1,230	350	350	350	350	350
V	900	375	435	320	-	-
W	875	240	240	315	365	-
X	900	310	310	310	310	-
Y	900	200	250	300	350	200
Z	750	175	410	410	-	-

Projects U and Y are mutually exclusive. The projects are all believed to be of similar risk to the company's existing capital investments. Any surplus funds may be invested in the money market to earn a return of 9% per year, assuming the market is an efficient market. Kurawa's cost of capital is 12% per year.

Required:

- a) Calculate for each project, the expected net present value and expected profitability index, then rank the projects according to both of these methods, and explain why these rankings differ; (14 marks)



- b) Give advice to Kurawa Limited recommending which projects should be selected (6 marks)

Question FIVE

- a) Bamba Ltd (Bamba) operates a chain of fitness clubs in Ganze Region. Managers at the fitness clubs receive a quarterly bonus if their fitness club achieves or exceeds all of the following financial targets:
- | | |
|------------------------------------|--------------------------|
| Return on Capital Employed (ROCE): | 8% (based on net assets) |
| Asset turnover: | 40% |
| Operating profit margin: | 20% |

Summary of the actual performance for Quarter 3 of the current year for one of the fitness club in petanguo is detailed below:

	sh
Revenue	36,000
Staff costs	12,000
Other fixed costs	22,000
Net assets	110,000
Number of customers	600

The quarterly financial targets are set by the head office finance team and all fitness clubs are given the same target. Bamba is currently forecasting the performance of its fitness clubs in Quarter 4. The following information will be used to forecast the performance for each of its fitness clubs in Quarter 4:

- The average revenue per customer will increase by 10% on Quarter 3.
- Customer numbers will increase by 5% on Quarter 3.
- Staff costs and net assets are expected to remain at the same level as Quarter 3.
- Other fixed costs are expected to decrease by 5% on Quarter 3.
- Staff and other costs are fixed (they are not related to the number of customers).

Required:

Justify whether the manager of the fitness club in petanguo should receive a bonus in Quarter 4 based on the forecast performance. Your computation should include operating profit margin, ROCE and asset turnover for Quarter 4.

(8 marks)

- b) The manager of the fitness club in Petanguo is dissatisfied with the quarterly bonus system and does not perceive it to be fair. He argues that the financial targets are based on a regional view of all Bamba fitness clubs and do not take account of specific local circumstances. For instance, the fitness club in Petanguo is located in a less affluent area of the region. Managers also complain about using solely financial



indicators in setting targets. The manager of fitness club in Petanguo would like to see participation from all fitness club managers in the development of quarterly financial and non-financial targets.

Required:

- i) Discuss the potential impact on Bamba for involving the fitness club managers in the preparation of their quarterly financial targets. (3 marks)
 - ii) Explain **THREE (3)** disadvantages of using financial performance indicators alone to assess performance. (3 marks)
- c) Bamba currently faces a tough competition with the major players in its market. To secure or increase its market position, the CEO has suggested benchmarking exercise although he has little knowledge in benchmarking exercise.

Required:

Explain the meaning of the following types of benchmarking to the CEO.

- i) Internal benchmarking (2marks)
- ii) Competitive benchmarking (2marks)
- iii) Functional benchmarking. (2marks)

