

**BBM 3311 MANAGERIAL ACCOUNTING FOR DECISION MAKING  
SEPT-DEC 2018 END OF SEM EXAMS**

Question one is mandatory and the student is expected to choose other two questions.

**QUESTION ONE**

(a) The budgeted profit statement for Product X for next year 2019 shows that it has a margin of safety equal to 20% of budgeted sales and a unit selling price of kshs.10. Product X has a contribution to sales (c/s) ratio of 60% and budgeted fixed costs of kshs.120,000 for the year.

Required:

Calculate the percentage increase in the unit variable cost that would result in Product X breaking even. 10 marks

(b) Bondo holdings limited has a lead time of 40 days and daily average use of 30 litre Rubia XT engine oil from Total Kenya Limited.

(i) Calculate their re-order level (re-order point) 5 marks

(ii) Explain what re-order level(re-order point) is 5 marks

(c) Activity Based Management is a powerful new technology, but only when it is used. To be of value, ABM must be applied, not simply analyzed.

Required : List and explain the seven overhead changing decisions that must be part and parcel of implementing activity based management.10 marks

**QUESTION TWO**

Trialpha Ltd produces and sells three products (R, S and T). The company uses a standard costing system. Budgeted and actual data for last year 2017 is shown in the table below.

	Selling price (Kshs/unit)		Sales volume (units)	
	Budget	Actual	Budget	Actual
<b>R</b>	3	2.5	10000	12000
<b>S</b>	6	7	6000	7000
<b>T</b>	8	10	4000	3000

Required:

The total sales mix revenue variance for last year 2017. 10 marks

(b) Maintaining accurate and complete records on the value of inventory is one of the major concerns of most businesses today. Keeping too much of an unprofitable stock, or using inappropriate methods of costing certain inventory items, can quickly deplete your profits. Discuss five benefits of adopting product costing system . 10 marks

### **QUESTION THREE**

A company is launching a new product. The product is made using a labour intensive process. The first unit took 12 minutes to complete. The total time taken for the first 16 units was 54.5 minutes. Calculate the rate of learning that occurred. 10 marks

(b) Managers are constantly making routine, day-to-day, operating decisions that affect revenue, cost and profit. Daily decisions may involve relatively modest transactions, but when multiplied and accumulated over the financial year can have a serious impact on bottom-line profits of business undertakings.

Required:

Give examples of such decisions made by hospitality and tourism property management teams .10 marks

### **QUESTION FOUR**

A company is reviewing the price of one of its products. The product has a marginal cost of Kshs.28 per unit and is currently sold for kshs.65 per unit. At this price the demand for the product is 800 units per week. A market research study shows that for each reduction in the selling price by kshs.5 per unit the weekly demand would increase by 40 units, and that for each increase in the selling price by kshs.5 per unit the weekly demand would decrease by 40 units.

Calculate the optimal selling price. 11 Marks

Note: If Price  $P = a - bx$  then Marginal Revenue =  $a - 2bx$

(b) List and explain the nine cost concepts for decision making 9 marks

### **QUESTION FIVE**

(a) List and explain the three components of strategic cost management 10 marks

(b) Three different product lines can be produced by Bondo Supply Company with the present equipment in one of the divisions. The annual depreciation of the equipment is Kshs.8,000 and the annual cost of equipment operation is Kshs.3,000. These costs will not be affected by the choice of the product lines.

Product A is expected to yield sales revenue of Kshs.46,000 a year with increased cost of production amounting to Kshs.28,000. Product B should yield sales revenue of Kshs..34,000 a year

with increased costs of Kshs..11,000. Product C should yield sales revenue of Kshs..39,000 with increased costs of Kshs..24000.

Required:

**i) Which of the three product lines seem to offer the best profit potential based on information given? Show computations.7 marks**

(ii) Identify the sunk costs. 2 marks

(iii) What is the opportunity cost of selecting only the best product line? 1mark