

KASNEB REVISION KIT

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**ADVANCED  
MANAGEMENT  
ACCOUNTING  
REVISION KIT**

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2021

UPDATED WITH NOVEMBER 2019 PAST PAPERS

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# CPA

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## ADVANCED MANAGEMENT ACCOUNTING

PART 3

CPA SECTION 5

REVISION KIT

PAST EXAMINATION PAST PAPERS WITH  
SUGGESTED ANSWERS

TOPICALLY ARRANGED

Updated with November 2020 past paper

## INTRODUCTION

Following our continued effort to provide quality study and revision materials at an affordable price for the private students who study on their own, full time and part time students, we partnered with other team of professionals to make this possible.

This Revision kit book (Question and answers) contains kasneb past examination past papers and their suggested answers as provided by a team of lecturers who are experts in their area of training. The book is intended to help the learner do enough practice on how to handle exam questions and this makes it easy to pass kasneb exams.

Special appreciation and recognition goes to FA Kegicha William Momanyi (MBA Accounting, CPA, CISA and CCP), Johnmark Mwangi (MSc Finance, CPAK, BCom Finance), CPA Gregory Mailu (Bsc. Economics) CPA Dominic Rasungu and CPA Lawrence Ambunya among others.

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## PAPER NO.14 ADVANCED MANAGEMENT ACCOUNTING

### GENERAL OBJECTIVE

This paper is intended to equip the candidate with knowledge, skills and attitudes that will enable him/her to apply advanced management accounting techniques in business decision making.

### 14.0 LEARNING OUTCOMES

A candidate who passes this paper should be able to:

- Use cost estimation data in decision making
- Apply inventory management techniques to decision making
- Use financial and non-financial indicators to measure organisational performance
- Apply environmental management accounting concepts in practice.

### CONTENT

#### 14.1 Nature of management accounting

- Introduction to advanced management accounting
- Scope of management accounting
- Limitations of management accounting
- Ethical standards of management accountants

#### 14.2 Decision theory

- Decision process
- Decision making environment – certainty, risk, uncertainty and competition
- Decision making under uncertainty - maximin, maximax, minimax regret, Hurwicz decision rule, Laplace decision rule
- Decision making under risk - expected monetary value, expected opportunity loss, minimising risk using coefficient of variation, expected value of perfect information
- Decision trees - sequential decision, expected value of sample information
- Limitations of expected monetary value criteria

#### 14.3 Cost estimation and forecasting

- An overview of the methods of cost estimation and prediction; engineering, simulation and statistical methods, simple and multiple regressions, the statistical properties of regression
- Interpretation of ANOVA tables
- Learning curve and its application

**14.4 Inventory control decisions**

- Cost of holding and ordering inventory
- Stochastic inventory models
- Inventory models for perishable items
- Application of simulation models in inventory control

**4.5 Pricing decisions**

- External pricing methods
- Internal pricing methods (transfer pricing)
- Target costing
- Life cycle costing

**14.6 Short-term planning and decision-making**

- Overview of single product and multiple product cost-volume-profit analysis under conditions of certainty
- Single product and multiple product cost-volume-profit analysis under conditions of uncertainty
- Risk assessment
- Application of marginal costing: product mix decisions, special orders, make or buy decision, pricing decisions and other similar short-run decisions, relevant information in decision making

**14.7 Budgetary control and advanced variance analysis**

- Flexible and static budget, purpose of budgetary control; operation of a budgetary control system, organisation and coordination of the budgeting function
- Human aspects (motivational aspects) of budgeting, emerging trends in budgetary control; ERPS, ABB, ZBB, program budgeting
- Advanced variance analysis and performance evaluation; expost variances and opportunity costs in variances
- Variance investigation models

**14.8 Performance measurement and evaluation**

- Linkage between performance measurement and organisational vision
- Responsibility accounting and responsibility centres, segmented reporting
- Distinction between financial performance measures and non-financial performance measures
- Cost of information
- Methods of evaluating responsibility centre performance such as return on investment (ROI), residual income (RI) and economic value added (EVA) (importance and limitations of the methods)

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- Other financial/non-financial performance measures: balanced scorecard, performance pyramid, Fitzgerald and Moon's building block model, performance prism
- Managerial incentive schemes
- Performance contracting
- Performance measures in the service industry

14.9 **Environmental management accounting**

- Role of accountants in environmental management accounting
- Using environmental management accounting to manage costs
- Opportunities for environmental awareness in management accounting

14.10 **Emerging issues and trends**

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## PART A

# PAST EXAMINATION QUESTIONS

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## TOPIC 1

### NATURE OF MANAGEMENT ACCOUNTING

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#### QUESTION 1

##### November 2019 Question One A

Examine three benefits that might accrue to a business organisation as a result of good ethical behaviour by management accountants. (6 marks)

#### QUESTION 2

##### May 2019 Question Four A

Highlight four ethical standards of management accountants. (4 marks)

#### QUESTION 3

##### May 2016 Question One A

Management accountants are required to conduct themselves ethically. A commitment to ethical professional practice requires Observation of principles that express values and standards that guide conduct such as honesty, fairness, objectivity and responsibility.

##### **Required:**

With reference to the above statement, summarise six benefits of ethical behaviour by management accountants in business. (6 marks)

#### QUESTION 4

##### May 2015 Question One A

Explain the role of management accountants in environmental management accounting. (6 marks)

**QUESTION 5**

**May 2015 Question Three A**

Evaluate four ethical standards to be adhered to by management accountants.

(8 marks)

**QUESTION 6**

**May 2015 Question Four A**

Examine three desirable factors that need to be considered in order to ensure that management accounting information is used effectively

(6 marks)

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## TOPIC 2

### DECISION THEORY

#### QUESTION 1

##### November 2020 Question One C

Blue Beach Hotel is a 5-star hotel based in Naivasha Town, Kenya. In the onset to the Kenya Athletic Federation's cross - country championship for the year 2020 due to be held in Naivasha later in the year, the hotel management has reviewed the hotel's operations with a view to streamlining activities so as to take full advantage of the event. The management has decided to package the booking options into three as follows:

- Bed only
- Bed and breakfast
- Full board

The management is aware that the outcome could take any of the following possibilities for each of the booking options above:

- Full booking
- Moderate booking
- Low booking

They have worked the likely payoff amounts for the booking options under each possible outcome as per the table given below:

Events	Probability	Decision alternatives		
		Bed only Sh."000"	Bed and Breakfast Sh."000"	Full board Sh."000"
Full booking	0.30	24,000	90,000	16,000
Moderate booking	0.50	48,000	44,000	28,000
Low booking	0.20	6,000	8,000	18,000

#### Required:

Advise the management of the hotel on the best booking option using the following decision theory techniques:

- (i) Expected monetary value (EMV). (3 marks)
- (ii) Expected opportunity loss (EOL). (3 marks)

(iii) A research company has offered to give more insight to the hotel management on the likely booking situations that might arise.

Determine the maximum amount the hotel should pay to the research company. (4 marks)

## QUESTION 2

### November 2020 Question Four C

Blade Ltd. uses decision tree analysis to evaluate potential projects. The Company has been exploring the launch of a new product which it believes has a 70% probability of success. The company is however considering undertaking an advertising campaign costing Sh.500,000 which would increase the probability of success to 95%. If successful, the product would generate income of Sh.2,000,000 otherwise Sh.700,000 would be received.

#### Required:

Using decision tree, advise the management of Blade Ltd. on the maximum amount of cash that the company should be prepared to pay for advertising. (4 marks)

## QUESTION 3

### November 2019 Question One B

Justify why in the short term some costs and revenues are not relevant for decision making. (3 marks)

## QUESTION 4

### November 2019 Question One C

Fairdeal Ltd. uses a third party delivery service to deliver goods to customers. The current average cost per delivery is Sh.125. Fairdeal Ltd. is considering establishing an in-house delivery service. A number of factors could affect the average total cost per delivery for the in-house delivery mode.

The table below shows the possible average total cost and the probability of each one occurring for the in-house delivery mode:

Average total cost (Sh.)	Probability
105	0.05
107	0.10
110	0.08
121	0.12
125	0.14
126	0.16
142	0.12
156	0.18
158	0.05

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**Required:**

- (i) Expected value of the average total cost based on the above probability distribution. (2 marks)
- (ii) Evaluate the decision that the company's manager is likely to make based on the average total cost in (c) (i) above and the current average delivery cost of Sh.125 per delivery, assuming the manager is:
- (i) Risk neutral.
  - (ii) Risk averse.
  - (iii) Risk seeker. (9 marks)

**QUESTION 5**

**May 2019 Question One C**

Marima Ltd. is considering introducing two new products in the market.

The company has the following options:

- Option 1: Introduce both products.
- Option 2: Introduce either of the products.
- Option 3: Introduce none of the products, depending on their performance in the market.

An analysis of the product's likely performance indicates the probability of a good performance as 30%, fair performance as 50% and poor performance as 20%. The sales revenue depending on the state of nature is as shown below:

State of nature			
	Good performance (S1)	Fair performance (S2)	Poor performance (S3)
Decision	Sh. "million"	Sh. "million"	Sh. "million"
Neither	0	0	0
Product 1 only	30	15.6	7.2
Product 2 only	25.2	14.4	7.2
Both	52.8	8.8	3.2

**Required:**

- (i) For each decision, determine the expected monetary value. (4 marks)
- (ii) Advise the management of Marima Ltd. on the action to take assuming that Rima Ltd. could supply perfect information at a cost of Sh.5 million. (4 marks)

**QUESTION 6**

**May 2018 Question One**

A company manufacturing roof tiles has been considering the likely demand for the tiles over the next six years. The demand pattern is estimated as follows:

High demand for six years	0.5
Low demand for six years	0.3
High demand for three years followed by low demand for three years	0.2

**Additional information:**

1. There is no probability of a low demand followed by a high demand.
2. Enlargement of capacity will be required and the following options are available:
  - Option A: Install a fully automatic facility immediately at a cost of Sh. 10.8 million.
  - Option B: Install a semi-automatic facility immediately at a cost of Sh.8 million.
  - Option C: Install a semi-automatic facility immediately as in Option 13 above and upgrade to a fully automatic facility at an additional cost of Sh.4 million in three years time provided demand has been high for the three years.
3. The returns expected under the three capacity options and demand levels are estimated as follows:

**PART B**

**SUGGESTED**

**ANSWERS AND SOLUTIONS**

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## TOPIC 1

# NATURE OF MANAGEMENT ACCOUNTING

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### QUESTION 1

November 2019 Question One A

**Benefits that might accrue to a business organization as a result of good ethical behavior by management accountants are:**

- It promotes a higher standard of self regulation
- It regulates the behaviour of professional leading to best practice
- It helps in minimizing the conflicts of interest between professionals and clients
- It helps in boosting public confidence in the word of professionals
- It improves credibility and trust

### QUESTION 2

May 2019 Question Four A

**Ethical standards of Management Accountants**

- 1. Competence.** Enhance knowledge and skills, perform professional duties in accordance with relevant laws and regulations, make recommendations that are accurate and timely, and recognize and help manage risk.
- 2. Confidentiality.** Information should be confidential unless disclosure is legally required or authorized, let relevant people know the importance of confidential information, and refrain from using confidential information in illegal or unethical ways.
- 3. Integrity.** Mitigate conflicts of interest or warn of possible conflicts of interest, refrain from engaging in any conduct that would prevent the ethical performance of duties, avoid activities that would discredit the profession, and place ethics and integrity of the profession above personal interests.