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PAST EXAMINATION PAST PAPERS WITH SUGGESTED ANSWERS

TOPICALLY ARRANGED

Updated With APRIL 2026 Past Paper with Answers

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PART A

PAST EXAMINATION QUESTIONS

TOPIC 3

PLANNING AND DECISION MAKING TECHNIQUES

QUESTION 1

April 2026 Question One B

Mambo Ltd. manufactures industrial packaging materials for export markets and faces increasing sustainability reporting obligations and possible carbon border adjustment taxes. Failure to proactively manage environmental costs may weaken long-term competitiveness and restrict access to environmentally sensitive markets.

The board is considering investing in a low-emission production facility to reposition the company strategically and mitigate future regulatory exposure. However, projected cash inflows depend on the regulatory environment that will prevail over the next five years.

Additional information:

1. Initial investment required is Sh.72,000,000.
2. Project life is five years with no residual value.
3. Cost of capital is 11%.
4. If strict carbon taxation is introduced (probability 0.4), annual net cash inflows will be Sh.28,000,000.
5. If moderate regulation applies (probability 0.35), annual net cash inflows will be Sh.18,000,000.
6. If no regulation is enacted (probability 0.25), annual net cash inflows will be Sh.9,000,000.
7. Present value of annuity factor for five years at 11% is 3.696.

Required:

(i) Calculate the expected net present value (ENPV). (6 marks)

(ii) Assess whether the project should be undertaken from both a financial and strategic perspective. (8 marks)

QUESTION 2

April 2026 Question Five B

Upishi Events Ltd. has secured an exclusive catering contract for a national outdoor festival. Management must decide in advance the number of premium food packages to prepare. Unsold packages will have no resale value after the event.

Based on historical patterns, the management estimates the following probabilities:

• Low demand:	0.3
• Moderate demand:	0.4
• High demand:	0.3

Estimated profit outcomes (Sh.) are shown below:

Demand condition	3,000 units	4,000 units	5,000 units	6,000 units
Low	4,000	2,000	(3,000)	(6,000)
Moderate	6,000	9,000	11,000	8,000
High	8,000	12,000	16,000	20,000

Required:

(i) Determine the optimal decision using the Maximin and Maximax criteria. (4 marks)

(ii) Calculate the expected monetary value (EMV) for each decision alternative and identify the optimal decision. (4 marks)

(iii) Computing the expected value of perfect information (EVPI), advise whether obtaining perfect demand information would be justified in principle. (4 marks)

QUESTION 3

December 2025 Question One C

Junction Cafeteria buys and sells hot take-away food. The cafeteria wants to decide on how many burgers to purchase for sale at a forthcoming outdoor concert. The number of burgers sold will depend on the weather conditions and any unsold burgers will be thrown away at the end of the day.

There is a 30% chance that the weather will be good, a 20% chance that the weather will be normal and a 50% chance that the weather will be bad.

The table below details the profit that would be earned for each possible outcome:

Number of burgers purchased

Weather	**1,000**	**2,000**	**3,000**	**4,000**
	Sh.	**Sh.**	**Sh.**	**Sh.**
Bad	1,000	0	(1,000)	(3,000)
Normal	3,000	6,000	7,000	6,000
Good	3,000	6,000	9,000	12,000

Required:

The number of burgers to purchase to satisfy:

(i) Maximin criterion. (2 marks)

(ii) Maximax criterion. (2 marks)

(iii) Minimax criterion. (4 marks)

PART B

SUGGESTED

ANSWERS AND SOLUTIONS

TOPIC 3

PLANNING AND DECISION MAKING TECHNIQUES

QUESTION 1

April 2026 Question One B

Mambo Ltd.

(i) Calculation of the expected net present value (ENPV).

Step 1: Compute the Expected Annual Cash Inflow

Regulatory Environment	Probability (P)	Annual Cash Inflow (Sh.)	Expected Cash Inflow (P×Cash Inflow) (Sh.)
Strict carbon taxation	0.4	28,000,000	11,200,000
Moderate regulation	0.35	18,000,000	6,300,000
No regulation	0.25	9,000,000	2,250,000
Expected Annual Cash Inflow	**1**		**19,750,000**

Step 2: Calculating Present Value of Expected Cash Inflows

$$PV\ of\ Expected\ Cash\ Inflows = Total\ Expected\ Annual\ Cash\ Inflow \times PVIFA11\%, 5\ years$$

$$PV\ of\ Expected\ Cash\ Inflows = Sh.\ 19{,}750{,}000 \times 3.696$$
$$= Sh.\ \mathbf{72{,}996{,}000}$$

Step 3: Calculating Expected Net Present Value (ENPV)

$$ENPV = PV\ of\ Expected\ Cash\ Inflows - Initial\ Investment$$
$$ENPV = Sh.\ 72{,}996{,}000 - Sh.\ 72{,}000{,}000$$
$$= \boldsymbol{Sh.\ 996{,}000}$$

(ii) Assess whether the project should be undertaken from both a financial and strategic perspective.

- Financially, the project is marginally acceptable because the ENPV is positive at Sh. 996,000 after discounting at the 11% cost of capital.
- The result is sensitive to the regulatory outcome. Under strict carbon taxation, NPV = (Sh. 28,000,000 × 3.696) - Sh. 72,000,000 = Sh. 31,488,000 *favourable.*
- Under moderate regulation, NPV = (Sh. 18,000,000 × 3.696) - Sh. 72,000,000 = Sh. 5,472,000 *adverse.*
- Under no regulation, NPV = (Sh. 9,000,000 × 3.696) - Sh. 72,000,000 = Sh. 38,736,000 *adverse.*

- Strategically, the project reduces exposure to future carbon taxation and carbon border adjustment risks, strengthens sustainability reporting compliance and protects access to environmentally sensitive export markets.
- The board should undertake the project if it attaches strategic value to regulatory preparedness, market access and long-term competitiveness; however, it should manage downside risk through phased investment, cost control and regulatory monitoring.

QUESTION 2

April 2026 Question Five B

Upishi Events Ltd.

(i) Maximin and maximax criteria

Decision alternative	Minimum profit (Sh.)	Maximum profit (Sh.)
3,000 units	4,000	8,000
4,000 units	2,000	12,000
5,000 units	(3,000)	16,000
6,000 units	(6,000)	20,000

- Maximin criterion: choose 3,000 units because it has the best worst outcome of **Sh.4,000**.
- Maximax criterion: choose 6,000 units because it has the best possible outcome of **Sh.20,000.**

(ii) Expected monetary value (EMV)

Decision alternative	Workings	EMV (Sh.)
3,000 units	(4,000×0.3)+(6,000×0.4)+(8,000×0.3)	6,000
4,000 units	(2,000×0.3)+(9,000×0.4)+(12,000×0.3)	7,800
5,000 units	(−3,000×0.3)+(11,000×0.4)+(16,000×0.3)	8,300
6,000 units	(−6,000×0.3)+(8,000×0.4)+(20,000×0.3)	7,400

The optimal decision under EMV is to prepare **5,000 units** because it has the highest EMV of Sh.8,300.

(iii) Expected value of perfect information (EVPI)

- Best payoff under low demand = Sh.4,000
- Best payoff under moderate demand = Sh.11,000
- Best payoff under high demand = Sh.20,000
- Expected value with perfect information
  = (4,000×0.3)+(11,000×0.4)+(20,000×0.3)

- Expected value with perfect information = **Sh.11,600**
- Expected value without perfect information (Best EMV) = **Sh.8,300**
  EVPI = Sh.11,600 - Sh.8,300 = **Sh.3,300**
- Perfect demand information would be justified in principle only if the cost of obtaining it is less than **Sh.3,300.**

QUESTION 3

December 2025 Question One C

Evaluate the payoff matrix based on the specific risk appetite of each criterion.

(i) Maximin Criterion

This is a **pessimistic** approach where the decision-maker chooses the alternative that maximizes the minimum possible payoff.

- **1,000 burgers:** Minimum profit = Sh. 1,000
- **2,000 burgers:** Minimum profit = Sh. 0
- **3,000 burgers:** Minimum profit = Sh. (1,000)
- **4,000 burgers:** Minimum profit = Sh. (3,000)

Decision: The maximum of the minimums is **Sh. 1,000**. Junction Cafeteria should purchase **1,000 burgers**.

(ii) Maximax Criterion

This is an **optimistic** approach where the decision-maker chooses the alternative that maximizes the maximum possible payoff.

- **1,000 burgers:** Maximum profit = Sh. 3,000
- **2,000 burgers:** Maximum profit = Sh. 6,000
- **3,000 burgers:** Maximum profit = Sh. 9,000
- **4,000 burgers:** Maximum profit = Sh. 12,000

Decision: The maximum of the maximums is **Sh. 12,000**. Junction Cafeteria should purchase **4,000 burgers**.

(iii) Minimax Regret Criterion

This approach seeks to minimize the "regret" (opportunity loss) of making the wrong decision. We first calculate a **Regret Matrix** by subtracting each payoff from the maximum payoff for that specific weather condition.

Step 1: Regret Table (Max Payoff - Actual Payoff)

Regret table					
Weather	**Max Profit**	**1,000**	**2,000**	**3,000**	**4,000**
Bad	1,000	0	1,000	2,000	4,000
Normal	7,000	4,000	1,000	0	1,000
Good	12,000	9,000	6,000	3,000	0

Max Regret		***9,000***	***6,000***	***3,000***	***4,000***

Step 2: Decision The goal is to select the purchase level with the **lowest** maximum regret.

- The minimum value among (9,000, 6,000, 3,000, 4,000) is **3,000**.
- Junction Cafeteria should purchase **3,000 burgers** to minimise the maximum possible loss

QUESTION 4

December 2025 Question Three B(i and ii)

Tulia Ltd

(i) Weighted break-even point in units based on the current sales-mix

The weighted break-even point is calculated by dividing total fixed costs by the weighted average contribution margin (WACM) i.e. contribution per unit of the sales mix

Step 1: Calculate Unit Contribution

Product	**Family (Sh.)**	**Luxury (Sh.)**	**Standard (Sh.)**
Selling Price	10,000	12,050	8,750
***Less:* Variable Costs**			
Direct Material (sh. 250 per kg)	(2,500)	(4,000)	(1,750)
Direct Labour (sh. 500 per labour hour)	(1,500)	(1,750)	(1,250)
Contribution per unit	**6,000**	**6,300**	**5,750**

Step 2: Calculate Weighted Contribution Margin (WACM)

$$Weighted\ Contribution\ Margin\ (WACM) = \sum(Contribution\ per\ unit \times Sales\ mix)$$

Using the current sales mix (Family 25%, Luxury 40%, Standard 35%):

$$WACM = (6{,}000 \times 0.25) + (6{,}300 \times 0.40) + (5{,}750 \times 0.35)$$
$$WACM = 1{,}500 + 2{,}520 + 2{,}012.5 = 6{,}032.5$$

Step 3: Calculate Break-Even Point (BEP)

$$BEP = \frac{Total\ Fixed\ Costs}{WACM} = \frac{21{,}717{,}000}{6{,}032.50} = 3{,}600\ units$$

(ii) Production Plan to Maximize Profits (Limiting Factor)

When a resource is limited (direct labour hours), we rank products based on **Contribution per Limiting Factor**.

Labour Hours per Unit

Labour Rate = Sh. 500 per hour.

- **Family:** 1,500 ÷ 500 = 3 hours
- **Luxury:** 1,750 ÷ 500 = 3.5 hours
- **Standard:** 1,250 ÷ 500 = 2.5 hours

Product	**Family (Sh.)**	**Luxury (Sh.)**	**Standard (Sh.)**
Selling Price	10,000	12,050	8,750
Direct Material (sh. 250 per kg)	(2,500)	(4,000)	(1,750)
Direct Labour (sh. 500 per labour hour)	(1,500)	(1,750)	(1,250)
Contribution per unit	6,000	6,300	5,750
Divide by limiting factor	6,000 / 3	6,300 / 3.5	5,750 / 2.5
Contribution per limiting factor hour	2,000	1,800	2,300
Priority ranking	*2nd*	*3rd*	*1st*

Optimal Production Plan (Total hours available = 7,975)

Product	**Hours used**	**Remaining Hours**
No Production		7,975
Standard	1,750 × 2.5 = 4,375	3,600
Family	1,200 × 3.0 = 3,600	0

Decision:

Maximize profits by producing **1,750 units of Standard** and **1,200 units of Family**.
(*Note:* 50 units of Family cannot be produced as hours run out).

iii) Budgeted Profit per Unit using ABB

Step 1: Calculate Activity Rates

- **Inspection rate:** 8,000,000 ÷ 5,000 requisitions = 1,600 per requisition
- **Scheduling rate:** 6,217,000 ÷ 800 setups = 7,771.25 per setup
- **General rate:** 7,500,000 ÷ 5,000 units = 1,500 per unit

Step 2: Allocate Fixed Costs (Sh.)

Product	**Family (Sh.)**	**Luxury (Sh.)**	**Standard (Sh.)**
Selling Price	10,000	12,050	8,750
***Less* Variable Costs:**			
Direct Material (sh. 250 per kg)	(2,500)	(4,000)	(1,750)
Direct Labour (sh. 500 per labour hour)	(1,500)	(1,750)	(1,250)
Contribution per unit	6,000	6,300	5,750