

KIRINYAGA UNIVERSITY

CAT II

CONTEMPORARY ISSUES IN MANAGEMENT ACCOUNTING

UNIT CODE HBA 2405

QUESTION ONE

- a) Explain cost driver analysis as one of the elements of strategic management accounting.  
5 marks
- b) Explain the customer perspective element with regard to the Balance Score Card (5marks)
- c) Explain the following operations with relevant examples as used in Management accounting today.
- i) Activity based management 5 marks
- ii) Target costing 5 marks

QUESTION TWO

- a) PQR Ltd. Is a manufacturing company that makes only three products P, Q, and R. Data for the period ended last month are as follows:

	P	Q	R
Units produced and sold	6,000	8,000	4,000
	Sh.	Sh.	Sh.
Sales price per unit	50	70	60
Direct material cost per unit	16	24	20
Direct labour cost per unit	8	12	8
Production overheads costs	<b>Total</b>	<b>Cost drivers</b>	
	Sh.		
Machining costs	102,000	Machine hours	
Production scheduling ✓	84,000	machine hours	
Set-up costs ✓	54,000	Number of production runs	
Quality control ✓	49,200	Number of production runs	
Receiving materials ✓	64,800	Number of components receipts	
Packing materials ✓	36,000	Number of customer orders	
	<u>390,000</u>		

Information on the cost driver is given as follows:

	P	Q	R
Direct labour hours per unit	1	1½	1
Machine hours per unit	½	1	1½
Number of components per unit	3	5	8
Number of component receipts	18	80	64
Number of customer orders	6	20	10
Number of production runs	6	16	8

**Required:**

Using activity based costing (ABC) show the cost and gross profit per unit for each product during the period.  
(11 marks)

- c) Outline the stages involved in target costing 4 marks