



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA
A. M. E. C. E. A

P.O. Box 908
30100 Eldoret - Kenya
Telephone: 0728458276
Fax: 254-20-891084
Email: academics@cuea.edu

GABA CAMPUS – ELDORET
MAIN EXAMINATION
MAY – AUGUST 2022 TRIMESTER
SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING AND FINANCE
CAC 425: STRATEGIC COST MANAGEMENT

Date: July 2022	Duration: 2 Hours
Instructions: Answer Question ONE and any other TWO Questions	

QUESTION ONE

Explain the difference between the following terms

- a) Strategic management accounting and strategic cost management **(3 marks)**
- b) Value added costs and non- value added **(3 marks)**
- c) Customer life cycle and product life cycle **(3 marks)**

VSS is an engineering firm that deals with systems repair country wide. Each of its customers pays fixed monthly fees for their system maintenance services based on the type of system they have. VSS maintains records of the equipment used to maintain the system. Recently VSS decided to calculate the profitability of each customer. The following data was provided for the month of January 2017;

Customer	Revenues Kshs '000'	Costs Kshs '000'
KVDA	230	220
CUEA-Gaba campus	330	300
Eldoret polytechnic	420	330
Eldoret farm dealers ltd	430	440
KK enterprises	510	380

Required;

- i) Compute the operating profit for each customer **(2 marks)**
- ii) Prepare an analysis of customers ranked on January operating profit and show the percentage of cumulative profit to the total operating profit made from each customer **(4 marks)**
- iii) Based on your analysis above advice the management of VSS what options regarding each individual customers. **(3 marks)**
- iv) Evaluate the problems that the management of VSS might encounter in accurately estimating the operating cost of each customer **(4 marks)**

Different competitive strategies influence the emphasis that is given to particular management accounting techniques. Demonstrate this by use of example **(8 marks)**

QUESTION TWO

- a) Target costing is an alternative process that cannot be de-coupled from design. Identify four components to be available for it to be used successfully **(8 marks)**
- b) A company makes wheels for a variety of toys and sports equipment. It sells the components to manufacturers who assemble and sell the finished products. The company's market department has discovered a market for wheels for in-line skates, which the company presently does not produce. The findings indicate that a set of four wheels would sell for Kshs 700.
 - i) What is the highest acceptable manufacturing cost for the company to produce the set of wheels, if the company operating profit is 20% margin? **(6 marks)**
 - ii) Identify the target price, target profit and target cost **(6 marks)**

QUESTION THREE

Obado ltd manufactures three products A, B and C. these products uses a series of different machines but there is a common machine that is a bottleneck. The

standard selling price and cost per unit for each product in the next financial year are as follows.

	A Kshs	B Kshs	C Kshs
Selling price	2100	1600	1600
Costs;			
direct materials	410	200	300
Labour	300	200	300
Overheads	600	400	500
	<u>790</u>	<u>800</u>	<u>440</u>
bottleneck	90	100	70

Note; 30% of the overhead is classified as a variable cost

Required;

- i) Using the throughput accounting approach, what would be the ranking of these products for the best use of the bottleneck **(6 marks)**
- ii) Describe the target costing approach in relation to cost management **(4 marks)**
- iii) Distinguish between cost containment and cost management **(4 marks)**
- iv) Explain what backlash costing is and the circumstances under which it can be appropriately be used **(6 marks)**

QUESTION FOUR

- a) Describe the competitive strategies that a firm can adopt to achieve sustainable competitive advantage and explain how they influence management accounting practices. **(10 marks)**
- b) Explain how benchmarking can be used to manage costs and improve activity performance **(10 marks)**

QUESTION FIVE

- a) Explain the main features of Just In Time (JIT) philosophy **(10 marks)**
- b) Discuss the merits and demerits of the balance score card **(10 marks)**

END