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GABA CAMPUS – ELDORET

MAIN EXAMINATION

JANUARY – APRIL 2023 TRIMESTER

SCHOOL OF BUSINESS

BACHELOR OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

CAC 413: PERFORMANCE MEASUREMENT AND CONTROL

Date: April 2023	Duration: 2 Hours
Instructions: Answer Question ONE and any other TWO Questions	

Q1.

a) Explain the importance of ratio analysis to a business enterprise. **(3 Marks)**

b) Section management is allowed to run their part of the business almost as though it were their own company. Explain any five merits of divisionalization **(5 Marks)**

c) BS Limited manufactures a single standard product and operates a system of standard costing using a fixed budget. As the company's assistant cost accountant, you are responsible for preparing the monthly operating statements. Details from the budget, the standard product costs and actual results for the month ended 31 May 2003 are given below:

Budgeted and standard cost information

1. Budgeted sales and production for the month: 10,000 units
2. Standard cost of each unit of product:

   Direct material: X: 10kg at Sh. 10 per kg.

   Y: 5kg at Sh. 50 per kg.

   Direct wages: 5 hours at Sh. 30 per hour.
3. Fixed production overhead is absorbed into production at a rate of 200% of direct wages.

4. Budgeted sales price has been estimated to give a profit of 20% of sales price.

Actual results for the month ended 31 May 2003:

Production	9,500 units
Sales	9,500 units sold at a price of 10% higher than budgeted

Direct materials consumed:

X:	96,000kg at Sh. 12kg
Y:	48,000kg at Sh. 47 per kg

Direct wages paid: 46,000 hours at Sh. 32 per hour.

Fixed production overhead incurred: Sh. 2,900,000.

Required:

The operating statement for the month of May, 2004 showing:

a) The budgeted profit: **(3 Marks)**

b) Variances for direct materials, direct wages, overheads and sales. **(16 Marks)**

c) The actual profit **(3 Marks)**

Q2.

a) Summarize the sequence used in the compilation of the annual budget in a manufacturing company. **(6 Marks)**

b) Explain the advantages and disadvantages of zero base budgeting. **(8 Marks)**

c) i) Briefly explain the limitations of relying on accounting based techniques for assessing the performance of a business organization. **(6 Marks)**

Q3.

The following are the summarized financial statements of Deweto limited:

Trading and profit and loss account for the year ended 31 October.

	2002	2003
	Sh.'000	**Sh.'000**
Sales	93,500	11,350
Cost of sales	(55,120)	(72,970)
Gross profit	38,380	38,380
Expenses	(26,230)	(23,960)
Net profit before interest and tax	12,150	14,420
Loan interest	(450)	(375)
Net profit before tax	11,700	14,045
Taxation	(3,510)	(5,413.5)
Net profit after tax	8,190	8,631.5
Dividend	(6,00)	(6,000)
Retained profit	2,190	2,631.5

Balance sheet as at 31 October

	2002		2003	
	Sh.'000	**Sh.'000**	**Sh.'000**	**Sh.'000**
Fixed assets:				
Freehold premises	10,500		10,500	
Plant and equipment	7,200		9,500	
Motor vehicles	5,350	23,050	7,300	27,300
Current assets:				
Stock	12,500		11,800	
Debtors	9,850		8,900	
Bank balance and cash in hand	5,950	28,300	5,864.5	26,564.5
Current liabilities:				
Creditors	8,350		7,830	
Taxation	3,510		5,413.5	
Dividend	3,000	(14,860)	3,000	(16,243.5)
		36,490		37,621

Ordinary share capital		30,000		30,000
Reserves		3,490		5,121
		33,490		35,121
15% loan		3,000		2,500
		36,490		37,621

Note:

1. 80% of the sales are no credit
2. The stock as at 31 October 2001 was valued at Sh.13,000,000

Required:

a) Calculate two ratios for each classification identified below for the financial years ended 31 October 2002 and 2003:
   i) Profitability ratios **(4 Marks)**
   ii) Liquidity ratios **(4 Marks)**
   iii) Gearing ratios **(4 Marks)**
   iv) Activity ratios **(4 Marks)**

b) Comment on Deweto Ltd's profitability and liquidity positions. **(4 Marks)**

Q4.

Explain any three balance score card perspectives and possible performance measurement indicator. **(4 Marks)**

The following information relates to the accounts of Valentine ltd are as follows:

Income Statements:

Details	**2014**	**2013**
	Sh 000	**Sh 000**
Revenue	608	520
Pre-tax accounting profit (note 1)	134	108
Taxation	(46)	(37)
Profit after tax	88	71
Dividends	(29)	(24)
Retained earnings	59	47

Balance Sheets:

	2014	2013
	Sh 000	Sh 000
Non-current assets	250	192
Net current assets	256	208
	506	**400**
Financed by: Shareholders' funds	380	312
Medium and long-term bank loans	126	88
	506	**400**

NB. After deduction of the economic depreciation of the company's non-current assets. This is also the depreciation used for tax purposes. Other information is as follows:

1. Capital employed at the end of 2012 amounted to sh 350000.
2. Value Co had non-capitalized leases valued at sh 16m in each of the years 2012 to 2014. The leases are not subject to amortization.
3. Value Co's pre-tax cost of debt was estimated to be 9% in 2013 and 10% in 2014.
4. Value Co's cost of equity was estimated to be 15% in 2013 and 17% in 2014.
5. The target capital structure is 70% equity and 30% debt.
6. The rate of taxation is 30% in both 2013 and 2014.
7. Economic depreciation amounted to sh 64000 in 2013 and sh 72000 in 2014. These amounts were equal to the depreciation used for tax purposes and the depreciation charged in the income statements.
8. Interest payable amounted to sh 6000 in 2013 and sh 8000 in 2014.
9. Other non-cash expenses amounted to sh 20000 in 2013 and sh 15000 in 2014.
10. Research and development expenditure on a new project started in 2013 and written off was sh 10 000 in 2013 and sh 11 000 in 2014

Calculate the Economic Value Added in each of 2014 and 2013. **(14 Marks)**

END