



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

MAIN EXAMINATION

MAY – JULY 2015 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

REGULAR PROGRAMME

CAC 413: PERFORMANCE MEASUREMENT AND CONTROL

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Date: JULY 2015

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions

- Q1. a) The 'O' division and the 'B' division are divisions within the 'C' group. One of the products manufactured by the 'O' division is an intermediate product for which there is no external market. This intermediate product is transferred to the 'B' division where it is converted into a final product for sale on the external market. One of the intermediate product is used in the production of final product. The expected units of the final product which the 'B' division estimates it can sell at various selling prices are as follows:

Net selling price £	Quantity sold units
100	1000
90	2000
80	3000
70	4000
60	5000
50	6000

The cost of each division are as follows:

£	'O'	'B'
	£	£
Variable cost per unit	11	7
Fixed costs attributable to products	60,000	90,000

The transfer price of the intermediate product has been set at £35 based on a full cost plus a mark-up.

Required:

- i Profit computations for 'O' division. **(5 marks)**
 - ii Profit computation for 'B' division. **(5 marks)**
 - iii Profit computation for the whole company. **(10 marks)**
- b) i Explain the factors that should be considered in designing financial performances measures for evaluating divisional managers. **(4 marks)**
- ii Explain the meaning of the following terms as used in divisionalized organizations.
- a) Return on investment. **(2 marks)**
 - b) Residual income. **(2 marks)**
 - c) Economic value added. **(2 marks)**

Q2. a) The following information relates to XYZ Company for a particular period.

Standard rate per hour	£10
Standard time per unit	2 hours
Time worked	4250 hours
Time paid (4326 hours)	Sh 42500
Production achieved	2180 units

Required:

Calculate:

- i Labor rate variance. **(3 marks)**
- ii Labor efficiency variance. **(3 marks)**

iii Idle time variance. **(3 marks)**

Additional information

- i It is expected that the cash balance on 31 December 2014 will be sh 2,200,000.
- ii Overdraft facilities will be available as and when required.
- iii The company pays wages the last day of the month in which they accrue.
- iv It is the company policy to pay creditors three months after the receipt of supplies.
- v 10% of the monthly sales are for cash while the balance are on credit. Debtors are expected to pay two months after delivery of goods.
- vi Included in overheads is sh 200,000 per month representing depreciation on motor vehicles. There is a one month delay in paying overhead expenses.
- vii A commission of 5% is paid to sales agents on all sales on credit. The payment of commission has not been included in the overhead expenses above.
- ix Delivery is expected in February 2015 of a new machine costing sh 4,500,000 in each of the following two months.

Required:

- a) A cash budget for the months of January, February and March 2015. **(18 marks)**
- b) Explain any TWO purposes of a cash budget. **(2 marks)**
- b) Examine the nature and characteristics of the following types of standards.
 - i Basic standards. **(2 marks)**
 - ii Ideal standards. **(2 marks)**

- iii Expected standards. **(2 marks)**
- iv Current standards. **(2 marks)**
- c) What is the purpose of variance analysis? **(3 marks)**

Q3. You are a trainee in the finance department of Baraka Ltd. The head of department has requested you to assist in the preparation of the cash budget for the months of January, February and March 2015. The actual revenues and costs for the months of September to December 2014 are shown below.

Month	Sales	Wages	Material purchases	Overheads
Year 2014	Sh '000'	Sh '000'	Sh '000'	Sh '000'
September	3000	600	2000	1000
October	4000	800	3000	1200
November	6000	1000	2500	1600
December	5000	900	3500	1400
Year 2015				
January	7000	1200	3000	1800
February	6000	1000	2500	1600
March	5000	900	2500	1400
April	5000	900	3000	1400

- Q4. a) i Critically examine each of the FOUR perspectives of the balanced scorecard. **(12 marks)**
- ii Provide illustrations of performance measures for each of the FOUR perspectives. **(4 marks)**
- b) Briefly explain how organizations can use quality as a competitive weapon. **(4 marks)**

END