



# 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 311-INTRODUCTION TO MANAGEMENT ACCOUNTING**

**Date: JULY 2015**

**Duration: 2 Hours**

**INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions**

- Q1. a) Describe three limitation of management accounting. **(6 marks)**
- b) State two advantages of Linear regression analysis over high low method in the analysis of cost behavior **(4 marks)**
- c) State two qualitative features of management accounting information. **(4 marks)**
- d) A business make two components which it uses to produce one of its product. Details are

	Compound A	Compound B
Per unit information	Ksh	Ksh
Buy in price	<u>14</u>	<u>17</u>
Material	2	5
Labour	4	6
Variable overheads	6	7
General Fixed Overheads	<u>4</u>	<u>3</u>

Total absorption cost	16	21
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The business wishes to maximize contribution and is considering whether to continue making the components internally or buy in from outside which components should the company buy in from outside in order to maximize its contribution. **(4 marks)**

- e) Differentiate and explain
- i) Risk seeker decision maker **(2 marks)**
  - ii) Risk averse decision maker **(2 marks)**
  - iii) Risk neutral decision maker **(2 marks)**
- f) ABC manufacturing company produces metal picture frames. The company's income statements for the last two years are presented below

	Last Year	Last Year
Unit sold	60000	80000
Sales	Ksh 85000	1,200,0000
Less: Cost of goods sold	<u>600000</u>	<u>750000</u>
Gross margin	250000	450000
Less: Operating expenses	<u>150000</u>	<u>180000</u>
	100000	270000

The company has no beginning or ending inventories

Required

- i) Estimate the company's total variable cost per unit, and its total fixed costs per year. **(4 marks)**
- ii) Compute the company's contribution margin for the year **(2 marks)**

Q2. XYZ company's most recent contribution format income statement is presented below.

	Ksh
Sales	75000

Less: variable expenses	<u>45000</u>
Contribution margin	30000
Less: Fixed expenses	<u>(36000)</u>
Net less	6000

The company sells its only product for Ksh 15 per unit. There were no beginning or ending inventories.

Required:

- Compute the company's break-even point in units sold **(3 marks)**
- Compute the total variables expenses at the break-even point.  
**(3 marks)**
- How many units would have to be sold to earn a target profit of Ksh 9000.  
**(6 marks)**
- The sales manager is convinced that a Ksh 6000 increase in the advertising budget would increase total sales by Ksh 25000. Would you advise the increased advertising outlay.  
**(8 marks)**

Q3. An ice cream seller; when deciding how much ice cream to order ( a small, medium, or large order) takes into consideration the wheather forecast (cold, warm, or hot). There are nine possible combinations of order size and weather, and the payoffs for each are shown in Table below;

Order/weather	Cold	Warm	Hot
Small	Ksh 250	Ksh 200	Ksh 150
Medium	Ksh 200	Ksh 500	Ksh 300
Large	Ksh 100	Ksh 300	Ksh 750

Required: Using the following decision criteria, advice the ice cream seller

- maximin **(3 marks)**
- maximax **(3 marks)**
- Laplace criteria of rationality **(6 marks)**

iv) Minimax Regret

**(8 marks)**

- Q4. State and discuss Qualitative attributes that should be attained by managerial accounting information for management decision making. **(20 marks)**

**\*END\***