THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

MAY – JULY 2016 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

REGULAR PROGRAMME

CAC 311: INTRODUCTION TO MANAGEMENT ACCOUNTING

Date: JULY 2016	**Duration: 2 Hours**
INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions	

Q1. a) The central purpose of management accounting is to provide management with information requires to direct the internal affairs of an organization. Describe any FOUR attributes of good management accounting information. **(4 marks)**

b) PQR is a manufacturer of sports shoes. The standard cost per pair of sports shoes is as follows

	Shs
Direct materials	500
Direct labour: 4 hours x sh 60 per hour	240
Production overheads	
Variable 4 hours x sh 30 per hour	120
Fixed	100
Standard production cost	960
Standard selling price	1,500

Additional information
During the month production was 10,000 units as planned but sales made were 8,000 units

Other costs incurred during the month were as follows

	Variable	Fixed
Selling ad distribution	20% of sales	600,000
Administration		1,000,000

Required

i Absorption costing statement. **(4 marks)**

ii Marginal costing statement **(4 marks)**

ii Reconciliation statement of the differences between the profit or loss under absorption costing and marginal costing above. **(2 marks)**

c) Tremendous company provided the following information regarding the company's operations for year ended 30/06/2016

	2015	2016
Sales shs	25,000,000	20,000,000
Profit as percentage of sales	10%	8%

Required

i Fixed costs **(3 marks)**

ii Break even point **(3 marks)**

iii Margin of safety at a profit of sh 270,000 **(2 marks)**

iv The sales value at which profit of sh 475,000 will be achieved**. (2 marks)**

v Amount of profit if sales is sh 30,000,000 **(2 marks)**

d) Briefly explain the term 'limiting factor' as used in CVP analysis. **(2 marks)**

e) Explain the following costing terms as used in management accounting.
Cost **(1 mark)**
Cost unit **(1 mark)**
Cost centre **(1 mark)**

Q2. a) State and briefly explain any FIVE assumptions underlying the break-even theory. **(5 marks)**

b) Explain the advantages and disadvantages of the high-low method of cost estimation. **(5 marks)**

c) Central Machinery Ltd is preparing its budget for the year ending 30 June 2014. For the fuel expenses consumption it is decided to estimate an equation of the form $y = a + bx$ where y is the total expense at an activity level x, a is the fixed expense and b is the rate of variable cost.

Month	Machine hours	Fuel oil expense	Month 2016	Machine hours	Fuel oil expense
2013		(Sh '000')	2004		(sh.'000')
July	34	640	January	26	500
August	30	620	February	26	500
September	34	620	March	31	530
October	39	590	April	35	550
November	42	500	May	43	580
December	32	530	June	48	680

The annual total monthly average figures for the year ended 30 June 2013 were as follows

	Machine hours	Fuel oil expense
	('000')	(sh'000')
Annual total	420	6,840
Monthly average	35	570

Required

i Using the high-low method estimate and interpret the fixed and variable cost elements of fuel oil expense. **(5 marks)**

ii Using the results in (i) above predict the fuel expense for November 2014 if experience indicates that 41,000 machine hours will be used. **(2 marks)**

iii By using simple linear regression analysis it is established that the co-efficient of determination arising from the data is approximately 0.25. Interpret the significance of this fact. **(3 marks)**

Q3. Auto-Generators Ltd is a local company that manufactures three types of automotive generators namely Exe, Wye and Zed. The management is unhappy about the current production mix and is seeking advice on the most optimal arrangement. Current production is 100,000 units of Exe, 50,000 units of Wye and 60,000 units of Zed. The data relating to production costs for each of the generators are given below

	Exe	Wye	Zed
Production costs	sh	sh	Sh
Direct material	3,000	9,000	6,000
Variable overhead	1,500	4,000	4,500

Additional information

i Each type of generator passes through three departments I which a different type of labour is used. The labour requirements in each department are given below ii

Department	Rate per hour	Labour requirement (hours)		
	sh	Exe	Wye	Zed
1	200	3	4	6
2	400	1	2 ½	4
3	300	5	7	9

iii There is a shortage of labour in department 2 and it is not possible to increase labour input hours beyond the level currently utilized.

iv Fixed overheads are budgeted st sh 500,000,000 per annum and they are expected to remain constant.

v Market prices are currently sh 12,000 for exe sh 20,000 for Wye and sh 22,500 for Zed.

vi A recent market survey disclosed that maximum sales potential for the company is 125,000 units of Exe, 75,000 units of Wye and 80,000 units of Zed.

Required

a) Determine the profit made on the current production mix **(7 marks)**

b) Determine the most profitable production mix that should be adoted by the company. **(7 marks)**

c) Calculate the expected profit if the production mix in (b) above is adopted by the company. **(3 marks)**

d) Which other considerations may be necessary before adoption of the change in production mix? **(3 marks)**

Q4. a) State the objectives of budgetary planning and control systems. **(3 marks)**

b) Identify the limitations of using budgeting systems to regulate business activities **(5 marks)**

c) Kunda Limited manufactures one standard product. Currently it is operating a normal activity level of 7-% with an output of 6,300 units, although the sales director believes that a realistic forecast for the next budget period would be at a level of activity of 50%

	60%	70%	80%
	Sh	sh	sh
Direct materials	37,800	44,100	50,400
Direct wages	16,200	18,900	21,600
Production overheads	37,600	41,200	44,800
Administrative overheads	31,500	31,500	31,500
Selling and distribution overheads	42,300	44,100	45,900
Total cost	165,400	179,800	194,200

Profit is 20% of selling price

Required

i Prepare a flexible budget based o 50% level of activity. **(9 marks)**

ii State THREE problems which may arise from such a change in the level of activity. **(3 marks)**

END