



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

MAIN EXAMINATION

MAY – JULY 2016 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

ODEL 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 the information required to direct the internal affairs of an organization.

Required

Describe any FOUR attributes of good management accounting information.

(4 marks)

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

	Shs
Direct materials	500
Direct labour 4 hoursx60 per hour	240
Production overheads	
Variable 4 hours x sh 30 per hour	120
Fixed	100
Standard production	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 and distribution	20% of sales	600,000
Administration		1,000,000

Required

- i Absorption costing statement **(4 marks)**
- ii Marginal costing statement **(4 marks)**
- iii 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 regarding the company's operations for the year ended 30/06/2016.

	2015	2016
Sales (kshs)	25,000,000	20,000,000
Profit 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 a profit of sh 475,000 will be achieved. **(2 marks)**
- v Amount of profit if sales is sh 30 millions **(2 marks)**

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

- e) Explain the following terms as used in management accounting

- i Cost **(1 mark)**
- ii Cost unit **(1 mark)**
- iii 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 machines Ltd is preparing its budget for the year ending 30th June 2016. 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.

The following information relate to the year ended 30th June 2015

Month 2015	Machine hours	Fuel oil expense Sh '000'	Month	Machine hours	Fuel oil expense 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 and monthly average figures for the year ended 30th June 2015 were as follows

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

Required

- Using the high-low methods estimate and interpret the fixed and variable cost elements of the fuel oil expenses. **(5 marks)**
- Using the results in (i) above predict the fuel oil expense for November 2016 if experience indicates that 41,000 machine hours will be used. **(2 marks)**
- By using a simple linear regression analysis it is established that the coefficient of determinations arising from the data is approximately 0.25. Interpret the significance of this fact. **(3 marks)**

Q3. XYZ 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 mix and 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 the production costs for each unit of the generators are given below

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

Additional information

- i Each type of generation passes through three departments in which a different type of labour is used
- ii Labour requirements in each department are given below

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 departments and it is not possible to increase input beyond the level currently utilized.
- iv Fixed overheads are budgeted at sh 500,000,000 p.a 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 to be adopted 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 budgeting 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 on a normal activity level of 70% 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% the following forecasts are available

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

Required

- i Prepare a flexible budget based on a 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