# THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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**MAIN EXAMINATION**

**AUGUST - DECEMBER 2016 TRIMESTER**

**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**REGULAR / ODEL PROGRAMME**

**CAC 311: INTRODUCTION TO MANAGEMENT ACCOUNTING**

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

Q1. a) Indicate two arguments advanced in favour of treating fixed manufacturing overheads as period costs in marginal costing. **(2 marks)**

b) The following production cost data is provided;

| | |
|---|---|
| Production units | 5,000 units |
| Normal production level | 4,000 units |
| Units sold | 4,500 |
| Production costs | Sh 720,000 |
| Variable selling costs | 2% of sales revenue |
| Fixed selling and distribution costs | Sh 200,000 |
| Fixed administration costs | Sh 90,000 |

40% of the production costs are fixed, and the unit selling price is sh 500

**Required:**
Compute the profit reported assuming absorption costing. **(6 marks)**

c) A financial executive lives in Nairobi but frequently must travel to Mombasa. She can go to Mombasa by car, train, or plane. The cost for a plane ticket from Nairobi to Mombasa is Sh 8,000, and it is estimated that the trip takes 30 minutes in good weather, and 45 minutes in bad weather. The cost for a train ticket is sh 4,000 and the trip takes an hour in good weather and two hours in bad weather. The cost to travel by car is Sh 1,600, and the trip takes three hours in good weather and four in bad weather. The executive places a cost of sh 2,400 per hour on her time. The weather forecast indicates a 60% chance of bad weather tomorrow.

**Required:**

i) Using the expected value criterion, recommend which mode of travel the executive should use. **(4 marks)**

ii) A travel consultant has now offered to provide the necessary advice to best select the mode of travel. How much should the executive be willing to pay for this service. **(3 marks)**

d) Cannon Photos has a unit selling price of Sh 500, variable cost per unit Sh 300, and fixed costs of Sh 210,000.

**Required**

i) Compute the break-even point in units and in shillings of sales. **(3 marks)**

ii) Compute the margin of safety percentage if the current level of sales is 1,500 units. **(2 marks)**

(e) Containers Limited makes and sells buckets. Each bucket uses 500 grams of plastic. Budgeted production of buckets in units for the next three months is as follows:

| | April | May | June |
|---|---|---|---|
| Budgeted production | 21,000 | 22,000 | 24,000 |

The company wants to maintain monthly ending inventories of plastic equal to 25% of the following month's budgeted production needs. The cost of plastic is Sh 22 per Kilogram.

**Required**

Prepare a direct materials purchases budget for the month of May. **(5 marks)**

(f) P Entertainment Company has three product lines in its retail stores: books, videos, and music. The allocated fixed costs are based on units sold and are unavoidable. Demand of individual products is not affected by changes in other product lines. Results of the fourth quarter are presented below:

| | Books | Music | Videos | Total |
|---|---|---|---|---|
| Units sold | 1,000 | 2,000 | 2,000 | 5,000 |
| Revenue | Sh 24,000 | Sh 48,000 | Sh 30,000 | Sh 102,000 |
| Variable departmental costs | 15,000 | 22,000 | 23,000 | 60,000 |
| Direct fixed costs | 3,000 | 6,000 | 4,000 | 13,000 |
| Allocated fixed costs | 4,400 | 8,800 | 8,800 | 22,000 |
| Net income (loss) | Sh 1,600 | Sh 11,200 | Sh (5,800) | Sh 7,000 |

**Required:**
Prepare an analysis of the effect of dropping the Video product line and advise if it should be dropped. **(5 marks)**

Q2. PQR Company budgeted the following information for 2015:

| | May | June | July |
|---|---|---|---|
| Budgeted purchases | sh 104,000 | sh 110,000 | sh 102,000 |

Additional information:

i. Cost of goods sold is 40% of sales. Accounts payable is used only for inventory acquisitions and no inventory are maintained.
ii. 50% of sales are on cash basis while the rest 50% is on credit. Credit sales terms allow for 30 days' credit period.
iii. PQR purchases and pays for merchandise 60% in the month of acquisition and 40% in the following month.
iv. Selling and administrative expenses are budgeted at sh 30,000 for May and are expected to increase 5% per month. They are paid during the month incurred. In addition, budgeted depreciation is sh 10,000 per month.
v. Income taxes are sh 38,400 for July and are paid in the month incurred.

**Required:**

Prepare the cash budget for June and July. **(15 marks)**

Q3. a) Illustrate how the point-scoring method can be used in decision making. **(5marks)**

b) Explain how the requirements of having accurate and timely information can be in conflict and how that conflict can be solved in decision making. **(5 marks)**

c) In a video "The complexity of Decision Making" Robert Thomas Knight highlights some issues that can impact decision making besides information availability. Identify these issues. **(5 marks)**

Q4. Pensat Manufacturing Company is preparing its direct labour budget for 2017 from the following production budget based on a calendar year:

| Quarter | Units |
|---|---|
| 1 | 60,000 |
| 2 | 30,000 |
| 3 | 45,000 |
| 4 | 75,000 |

Each unit requires 2 hours of direct labour. The union contract provides for a 10% increase in wage rate to Sh 110 per hour on October 1.

**Required**

i) Prepare a direct labour cost budget for 2017. **(10 marks)**

ii) Assuming that currently there are 150 workers, and the policy requires that each worker clocks 200 hours per month, advise whether there is need to budget for additional labour hours in 2017. **(5 marks)**

***END***