THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

P.O. Box 62157
00200 Nairobi - KENYA
Telephone: 891601-6
Fax: 254-20-891084
E-mail:academics@cuea.edu

MAIN EXAMINATION

JANUARY – APRIL 2017 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

EVENING PROGRAMME

CAC 311: INTRODUCTION TO MANAGEMENT ACCOUNTING

Date: April 2017	**Duration: 2 Hours**
INSTRUCTIONS: Answer Question ONE and any other TWO Questions	

Q1. a) Financial accounting and management accounting are closely interrelated. In spite of such a close relationship between the two, there are certain fundamental differences. Identify and briefly explain at least five fundamental differences. **(6 Marks)**

b) Write short notes on the following accounting concepts:

i) Direct cost and indirect cost **(2 Marks)**
ii) Fixed cost and variable cost **(2 Marks)**
iii) Cost centre and cost allocation **(2 Marks)**

c) Managers need to estimate future revenues, costs, and profits to help them plan and monitor business operations. Sometimes they use cost-volume-profit (CVP) analysis. For CVP analysis to be useful the assumptions on which it is based must be recognized. You are required to enumerate at least six assumptions that guide CVP analysis. **(6 Marks)**

d) Overheads form part of total cost but cannot be directly identified with a given cost unit. However, marginal and absorption costing are two different approaches to dealing with fixed production overheads. Briefly explain these two methods. **(6 Marks)**

e) Management Accounting is aimed at providing managers with information that is relevant to their decisions. In view of this hypothesis, you are required to explain the following concepts:

i) Relevant costs **(1 Mark)**
ii) Common costs **(1 Mark)**
iii) Opportunity cost **(1 Mark)**
iv) Avoidable costs **(1 Mark)**
v) Committed costs **(1 Mark)**
vi) Sunk costs **(1 Mark)**

Q2. a) Following complains by maize farmers that some fertilizers increase level of acidity in the soil (i.e., amount of acid in the soil depends on the quantity of fertilizer used). A longitudinal study was carried out by the research Department of the Catholic University of Eastern Africa. The data collected was analyzed based on simple regression analysis using E-views software. The following output was generated:

n = 8 years, Σx = 16,320;Σy = 377,465;Σx^2 = 35,990,400; and Σxy = 807,276,500

Required:

i) Explain the meaning of 'x' and 'y' in the above output **(1 Mark)**

ii) Compute the estimated regression function that is, the line of best fit **(6 Marks)**

iii) If two bags of fertilizer are used, estimate the level of acidity in milliliters **(1 Mark)**

iv) Briefly explain the advantages of least squares regression **(3 Marks)**

b) A market decline for Kuku Products has caused Kenya Kuku Bora Company Ltd to drop its selling price of Capons. Currently there are 8,000 Kukus in work-in-progress (WIP) that have costs of Ksh.780 per unit associated with them. The company can sell these Kukus in their current state for Ksh.900 each. However, it will cost Kenya Kuku Bora Company Ltd extra Ksh.170 per unit to complete the Kukus WIP, so that they can be sold for Ksh.1, 200 each. Total fixed costs relating to the production of the capons is Ksh.400, 200.

Required:
Determine the incremental cost if processed further and the incremental profit or loss and advise management of Kenya Kuku Bora Company Ltd.

Q3. a) Marginal costing and absorption costing are two different approaches to dealing with fixed production overheads.

Required:
Briefly describe the two methods indicating the fundamental differences between them **(5 Marks)**

b) Madini Africa Limited has been registered to manufacture a unique component that is used to purify water for drinking. The following data relates to the first month of operation:

Beginning inventory	0
Units produced	40,000
Units sold	35,000
Selling price per unit	Ksh.120
Selling and administrative expenses:	
Variable per unit	Ksh.4
Fixed (total for the month)	Ksh.1,120,000
Manufacturing costs:	
Direct materials cost per unit	Ksh.30
Direct labor cost per unit	Ksh.14
Variable manufacturing overhead cost per unit	Ksh.4
Fixed manufacturing overhead cost	Ksh.1,280,000

Management is anxious to see the profitability of newly designed water purifier.

Required:

i) Calculate unit product cost and prepare income statement under variable costing system and absorption costing system **(12 Marks)**

ii) Prepare a schedule to reconcile the net operating income under variable and absorption costing system **(3 Marks)**

Q4. a) Mara Africa Limited is a subsidiary of Kentucky Farm in USA. Mara produces three products Meat, Milk, and Butter for the parent company in USA. The sales mix for the three products is 40%, 20% and 40% respectively. The prices and variable costs per unit are as follows:

	Meat	Milk	Butter
Price (US $)	10	7	11
Variable cost	5	5	6
Contribution margin	5	2	5

The total fixed costs is US dollar 100,000 p.a

Required:

i) Compute the Break-even sales units for each product
ii) What would be the break-even sales units with target profit of US$.50, 000
iii) What would be the effect on breakeven point if the Sales mix changed to 50%, 20%, and 30% for Meat, Milk and Butter respectively? And if fixed costs decreased by 5%?

b) For effective operations households, corporates and governments must budget and function within budgetary allocations. You are required to define the term budget and briefly explain the importance of budgeting **(10 Marks)**

END