



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

MAY – JULY 2019 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

SPECIAL/ SUPPLEMENTARY EXAMINATION

CAC 311: INTRODUCTION TO MANAGEMENT ACCOUNTING

Date: JULY 2019

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and any other TWO Questions

Question 1 (Compulsory) 30 marks

- (a). List two differences between financial accounting and management accounting? **(2 marks)**
- (b). Distinguish between decision options and states of nature. **(4 marks)**
- (c). Cherop Consultants provides primarily two lines of service: accounting and tax. Accounting-related services represent 60% of its revenue and provide a contribution margin ratio of 30%. Tax services represent 40% of its revenue and provide a 40% contribution margin ratio. The company's fixed costs are Sh4,250,000.

Required

- (i) Calculate the weighted contribution margin ratio. **(2 marks)**
- (ii) Use the weighted contribution margin ratio to compute the breakeven revenue for the consultancy. **(3 marks)**
- (iii) Determine how much of the breakeven revenue is earned from each type of service. **(2 marks)**

(d) Mohid Manufacturers projected sales are as follows:

August	Sh 400,000
September	Sh 450,000
October	Sh 550,000

Mohid estimates that receivables will be collected 50% in the month of sale, 40% in the month after the sale, and 10% in the second month following the sale.

Required:

Calculate Mohid's budgeted cash receipts for October.

(4 marks)

(e) You are the Human Resources Manager of Modern Systems limited. You have completed shortlisting four applicants for an open position for the company front office clerk. Illustrate how you would use point-scoring method after the interviews to rank the four applicants. Use your discretion to decide the attributes you would consider important and what maximum scores would be allocated.

(6 marks)

(f) Pulham Company is preparing its direct labour budget for the last quarter 2019 from the following production budget based on a calendar year:

<u>Month</u>	<u>Units</u>
September	60,000
October	30,000
November	45,000
December	75,000

Each unit requires 2 hours of direct labour. The union contract provides for a 10% increase in wage rate to Sh 11 per hour on October 1.

Required:

Prepare a direct labour budgets for the last quarter showing the labour hours required and the total labour cost budget.

(4 marks)

(g) Paper Kenya (PK) is considering introducing a new line of tablets, targeting the preteen population. PK believes that if the tablets can be priced competitively at Sh 4,500, approximately 300,000 units can be sold. The controller has determined that an investment in new equipment totaling Sh 400,000,000 will be required. PK requires a minimum rate of return of 16% on all investments.

Required:

Compute the target cost per unit of the tablet.

(3 marks)

Question 2 (20 marks)

Cutting Edge Company Ltd produces sporting equipment. In 2017, the first year of operations, Cutting Edge produced 25,000 units and sold 20,000 units. In 2018, the production and sales results were exactly reversed. In each year, selling price was Sh 10,000 per unit, variable manufacturing costs were Sh 4,000 per unit, variable selling expenses were Sh 800 per unit, fixed manufacturing costs were Sh 54,000,000, and fixed administrative expenses were Sh 20,000,000.

Required:

- (a) Determine the closing stock for each year 2017 and 2018 **(2 marks)**
- (b) Determine the closing stock value for each of the years 2017 and 2018 using (i) variable costing and (ii) total costing. **(4 marks)**
- (b) Compute the net income for 2018 under absorption costing. **(8 marks)**
- (c) Would you expect the income for 2018 to be the same using as in (b) using variable costing? Why or why not? **(2 marks)**
- (d) List two advantages of using variable costing reporting **(4 marks)**

Question 3 (20 marks)

(a) A recent accounting finance graduate from the Catholic University of Eastern Africa evaluated the operating performance of Fasipe Company's four divisions. The following presentation was made to Fasipe's Board of Directors. During the presentation, the accountant graduate made the recommendation to eliminate the Rift Valley Division stating that total net income would increase by Sh 60,000. (See analysis below.)

	<u>Other Three Divisions</u>	<u>Rift Valley Division</u>	<u>Total</u>
Sales	Sh 2,000,000	Sh 480,000	Sh 2,480,000
Cost of Goods Sold	<u>950,000</u>	<u>400,000</u>	<u>1,350,000</u>
Gross Profit	1,050,000	80,000	1,130,000
Operating Expenses	<u>800,000</u>	<u>140,000</u>	<u>940,000</u>
Net Income	<u>Sh 250,000</u>	<u>Sh (60,000)</u>	<u>Sh 190,000</u>

For the other divisions, cost of goods sold is 80% variable and operating expenses are 70% variable. The cost of goods sold for the Rift Valley Division is 30% fixed, and its operating expenses are 75% fixed. If the division is eliminated, only Sh 15,000 of the fixed operating costs will be eliminated.

Required:

- (a) (i) Prepare a schedule to support the decision whether to close or not.
 - (ii) Indicate whether you agree with the recommendation or not, and why.
- Hint: Prepare the contribution income statement with and without the division. **(15 marks)**

(b) Management is often faced with the alternative of continuing to make a product or component internally or going to an external source and purchasing the product or component.

In gathering relevant information for these two alternatives, briefly identify the quantitative factors that should be considered. Are there any qualitative factors that should also be considered? **(5 marks)**

Question 4 (20 marks)

Tave Rouge Industries developed the following information for the product it sells:

Sales price	Sh 50 per unit
Variable cost of goods sold	Sh 28 per unit
Fixed cost of goods sold	Sh 650,000
Variable selling expense	10% of sales price
Variable administrative expense	Sh 2.00 per unit
Fixed selling expense	Sh 400,000
Fixed administrative expense	Sh 300,000

For the year ended December 31, 2018, Tave Rouge produced and sold 100,000 units of product.

Required:

- (a) Prepare a CVP income statement using the contribution margin format for Tave Rouge Industries for 2018. **(10 marks)**
- (b) Calculate and interpret the company's break-even point in units in 2018? **(5 marks)**
- (c) Calculate and interpret the company's margin of safety in Shillings in 2018? **(5 marks)**

END