



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

SEPTEMBER – DECEMBER 2019 TRIMESTER

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

REGULAR/ODEL PROGRAMME

CAC 311: INTRODUCTION TO MANAGEMENT ACCOUNTING

Date: DECEMBER 2019

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE (COMPULSORY) and any other TWO Questions. Show all the workings

- Q1. a) Explain why management needs management information and indicate two limitations that management information may have. **(3 marks)**
- b) Using the case provided, Gomez Electronics, Inc.
(i) Compute the profit reported assuming absorption costing. **(5 marks)**
(ii) Compute the profit reported assuming marginal costing. **(4 marks)**
(iii) Explain why your profit figures to (i) and (ii) above are either similar or different. **(1 mark)**
- 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:

	<u>April</u>	<u>May</u>	<u>June</u>
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)**

- Q2. a) Halwake Enterprises expects to have a cash balance of Sh 43,000 on January 1, 2020. These are the relevant monthly budget data for the first two months of 2020.
- i) Collections from customers: January Sh 85,000, February Sh 132,000
 - ii) Payments to suppliers: January Sh 40,000, February Sh 50,000
 - iii) Wages: January Sh 34,000, February Sh 40,000. Wages are paid in the month they are incurred.
 - iv) Administrative expenses: January Sh 24,000, February Sh 31,000. These costs include depreciation of Sh 1,000 per month. All other costs are paid as incurred.
 - v) Selling expenses: January Sh 15,000, February Sh 20,000. These costs are exclusive of depreciation. They are paid as incurred.
 - vi) Sales of short-term investments in January are expected to realize Sh 12,000 in cash.

Halwake Enterprises has a line of credit at a local bank that enables it to borrow upto Sh 40,000. The company wants to maintain a minimum monthly cash balance of Sh 25,000.

Required

Prepare a cash budget for January and February.

(15 marks)

b) Is net profit and the cash balance at the end of the period usually the same? Provide justification for your answer **(5 marks)**

Q3. a) Illustrate how the point-scoring method can be used in decision making. Hint: use a hypothetical case of selecting one candidate among interviewed. **(5 marks)**

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)**

d) Use the case provided, Gomez Electronics, Inc. Advise the president on how to respond to the discount request as indicated in the case. **(5 marks)**

Q4. a) Pensat Manufacturing Company is preparing its direct labour budget for 2020 from the following production budget based on a calendar year:

<u>Quarter</u>	<u>Units</u>
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 2020. **(10 marks)**
ii) Workers clock 200 hours per month, advise whether there is need to budget for additional labour hours in 2020. **(4**

marks)

- b) Use the case provided, Gomez Electronics, Inc. and prepare the following budgets;
- i) Manufacturing overhead budget for July-December 2002. (3 marks)
- ii) Budgeted income statement for July-December 2002 (3 marks)

END