UGANDA MARTYRS UNIVERSITY

FACULTY OF BUSINESS ADMINISTRATION & MANAGEMENT

DEPARTMENT OF ACCOUNTING & FINANCE

END OF SEMESTER TWO FINAL EXAMINATION FOR BACHELOR OF SCIENCE IN ACCOUNTING & FINANCE

MANAGEMENT ACCOUNTING

NKOZI CAMPUS

FRIDAY 22ND JULY 2022; 9:30AM – 12:30PM

INSTRUCTIONS:

(a) Attempt **ANY FOUR** Questions

(b) All questions carry equal marks

(c) Time allowed is **3 HOURS**

(d) Be neat & Show all your workings where necessary.

(e) Write your answer to each question on a fresh page in your answer booklet.

(f) No mobile phones are allowed in the examination room

(g) Do not write anything on the question paper

(h) Please, read further instructions on the answer booklet, before attempting any question.

QUESTION ONE

ABC Company produces gadgets. Overhead is applied to products based on direct labor hours. The denominator level of activity is 4,030 hours. The company's standard cost card is below:

Direct materials: 6 pieces per gadget at shs 500 per piece

Direct labor: 1.3 hours per gadget at shs 8,000 per hour

Variable manufacturing overhead: 1.3 hours per gadget at shs 4,000 per hour

During January, the company produced 3,000 gadgets. The fixed overhead expense budget was shs 24,180,000. Actual costs in January were as follows:

Direct materials: 25,000 pieces purchased at the cost of shs 480 per piece

Direct labor: 4,000 hours were worked at the cost of shs 36,000,000

Variable manufacturing overhead: Actual cost was shs 17,000,000

Required:

a) Where information permits, compute the following;
   i. Material variances **(7 marks)**
   ii. Labour Variances **(6 marks)**

b) Explain the different types of standards well known to you **(6 marks)**

c) Explain any five (5) advantages of standard costing **(6 marks)**

QUESTION TWO

JAMSON Manufacturing Co ltd manufactures a single product HONEY WINES which has the following cost structure based on a production budget of 10,000 units.

Materials – 4 kg at shs 3/kg	Shs 12
Direct labour – 5 hours at shs 7/hour	Shs 35

Variable production overheads are recovered at the rate of Shs 8 per direct labour hour.
Other costs incurred by the company are:

	Shs
Factory fixed overheads	120,000
Selling and distribution overheads	160,000
Fixed administration overheads	80,000

The selling and distribution overheads include a variable element due to a distribution cost of shs 2 per unit. The fixed selling price of the unit is shs 129.

Required:

a) Calculate how many units have to be sold for the company to breakeven. **(6 marks)**

b) Calculate the sales revenue which would give a net profit of shs 40,000. **(6 marks)**

c) If the company could buy in the units instead of manufacturing them, calculate how much it would be prepared to pay if both estimated sales for next year are 9,500 units at shs 129 each. **(5 marks)**

d) As a manager of JAMSON Manufacturing, explain the arguments you would present to JAMSON's Managing Director on the effectiveness of the assumptions of Cost Volume Analysis (CVP) **(8 marks)**

QUESTION THREE.

BAF Co ltd. is an ice cream producer. Currently it produces at capacity and sells ice cream in two flavors: vanilla and mocha-almond. The company is using traditional costing, under which indirect costs are allocated based on direct labour hours. The operating data for PBE Co. in March 2020 is as follows.

	Vanilla	**Mocha-almond**
Units produced and sold	50,000	1,000
Price	Shs 30	Shs 50
Direct labour hours per unit	0.02	0.02
Direct labour cost per hour	Shs 50	Shs 50
Machine hours per unit	0.01	0.01
Machine setup hours per production run	4	6
Number of production runs	50	10
Direct materials used	Shs 300,000	Shs 10,000

The company incurs manufacturing overheads totaling shs 1,275,000 in March 2020. An interview with the production manager shows that the following activities are required in the production process during the month.

Activity	**Hierarchy**	**Cost driver**	**Costs**
Run machine	Unit-level activity	Machine hours	Shs510,000
Handle production run	Batch-level activity	Production runs	Shs144,000
Set up machine	Batch-level activity	Machine setup hours	Shs520,000
Support products	Product-sustaining activity	Number of product	Shs101,000
			Shs1,275,000

Required:

a) Calculate the profit for each product using traditional costing. **(7 marks)**

b) Calculate the profit for each product using ABC. **8 marks)**

c) Comment on the results calculated above **(4 marks)**
d) Discuss the appropriateness of the costing method used by PBE Co ltd **(6 marks)**

QUESTION FOUR

Assume Tony's T-shirts makes shirts for local soccer, baseball, basketball, and other sports teams. The owner, Tony, purchases the shirts and prints graphics on the shirts for each team. The graphics were designed several years ago, so design costs are no longer incurred. On average, Tony sells 1,000 shirts each month. Typical monthly financial data follow:

	Per unit (shs)		Total monthly data at 1,000 shirts (shs)	
Sales revenue		20,000		20,000,000
Variable costs:				
Direct materials	8,000		8,000,000	
Direct labour	2,000		2,000,000	
Manufacturing overhead	3,000		3,000,000	
Total variable costs		13,000		13,000,000
Contribution margin		7,000		7,000,000
Fixed costs (rent, salaries, etc)				4,000,000
Profit				3,000,000

The monthly information provided relates to the company's routine monthly operations. A representative of the local high school recently approached Tony to ask about a one-time special order. The high school will be hosting a statewide track and field event and is willing to pay Tony's T-shirts shs 17,000 per shirt to make 200 custom T-shirts for the event. Because enough idle capacity exists to handle this order, it will not affect other sales. That is, Tony has the factory space and machinery available to produce more T-shirts.

Tony incurs the same variable costs of shs 13,000 per unit to produce the special order, and he will pay a firm shs 600,000 to design the graphics that will be printed on the shirts. This special order will have no other effect on Tony's monthly fixed costs.

Required:

With relevant computations, discuss whether Tony should accept the special order **(25 marks)**

QUESTION FIVE

a) Distinguish between a budget and budgetary control **(5 marks)**
b) Explain any five (5) challenges normally met by managers in the implementation of both budgetary control and variance analysis **(5 marks)**

c) Neat ltd manufactures a single product, the Dull. Budgeted results and actual results for June 2021 are shown below;

	Budget	Actual Results
Production and sales of the Dull (Units)	2,000	3,000
	Ugx	Ugx
Sales Revenue	20,000	30,000
Direct Material costs	6,000	8,500
Direct Labour costs	4,000	4,500
Maintenance costs	1,000	1,400
Depreciation	2,000	2,200
Rent and Rates	1,500	1,600
other costs	3,600	5,000
Total costs	18,100	23,200
Profit	1,900	6,800

It is assumed that:

i) Direct materials, direct labour and maintenance costs are variable

ii) Rent and rates and depreciation are fixed

iii) Other costs consist of fixed costs of Ugx 1,600 plus a variable cost of 1/= per unit made and sold.

Required:

Prepare a budget that will be useful for management control purposes **(15 marks)**

QUESTION SIX

a) Explain the fundamental features of relevant costs for decision making **(5 marks)**

b) Outline the steps involved in a decision making process **(4 marks)**

c) UMU wants to sell its staff van which was bought in 1999 at Shs 7,000,000.=. The University has got two offers from two customers where by the first customer is offering to pay 2,500,000/= in its current state. If UMU accepts the offer it will only pay a commission of UGX 100,000 to the brokers. However the second customer is advising UMU to panel beat the vehicle before the University sells it and is willing to pay UGX 3,500,000/= cash.

The University Engineer has established that if the panel beating is to be done the following costs will be incurred:-

	Shs
Spraying the vehicle	120,000
Labour costs	160,000
Spares	380,000
Tyres	600,000

UMU will not pay a commission to the brokers since the vehicle will not be parked in their yard.

Required

You are employed as a Management Accountant by the University and the Management team has requested for your advice on what offer should the University accept and why **(14 marks)**

<u>END OF THE PAPER, GOOD LUCK</u>