

UGANDA MARTYRS UNIVERSITY, NKOZI AND LUBAGA
CAMPUS

FACULTY OF BUSINESS ADMINISTRATION AND
MANAGEMENT

DEPARTMENT OF ACCOUNTING AND FINANCE

BSC ACC & FIN I, BAM III SEMESTER TWO 2022/2023

COURSE UNIT: MANAGEMENT ACCOUNTING

DATE: Friday, 26th May 2023

Time allowed: 9:30am -12:30pm

Instructions to Candidates:

Read the following before answering the examination questions.

1. Do not write anything on this question paper.
2. Write neatly and show all workings clearly.
3. Start every question on a new page
4. Clearly state the question number & sections attempted.
5. Answer FOUR Questions in All.
6. Every question attempted should be started on a new page.

Question Three:
a) Identify the differ
systems (4 marks)
b). A...

Question One:

- (a) Explain what a relevant cost is? And identify the key characteristics of a relevant cost
(5 marks)
- (b) A company produces three products and is reviewing the production and sales budgets for the next accounting period.

The following information is available for the three products:

| | Oranges | Passion fruits | Apples |
|-------------------------------|----------------|-----------------------|---------------|
| Unit selling price | 200 | 150 | 800 |
| Variable cost per unit | 140 | 70 | 600 |
| Fertilizers per unit (in kgs) | $\frac{1}{4}$ | $\frac{1}{2}$ | 2 |
| Estimated sales demand | 500 units | 1,000 units | 600 units |

Amount of fertilizers is limited to 1,600 kilograms for the period and is insufficient to meet total sales demand.

Required:

- Determine the product mix a company can produce and sell in order to maximize returns during the period.
- Determine the total contribution to be gained and lost because of the optimum mix selected. **(20 marks)**

Question two:

- In a meeting, the Managing Director of Laty Company suggested that the organisation needs both a financial and management accountant. Other members in the meeting strongly objected to the suggestion claiming that there is no difference in what the two will handle when hired. You have been called to the meeting as a technical person to advice. Please distinguish between the two kinds of accounting. **(10 marks).**
- Discuss the relevancy of management accounting to an organization like Mukwano group of companies **(15 marks)**

Question Three:

- a) Identify the differences between traditional costing system and Activity based costing systems (4 marks)
- b). Assume that a firm makes four products A, B, C and D. Data for the past period are as follows:

| Products | Output in units | Number of production runs in period | Direct labour hours per unit | Machine hours per unit | Material cost per unit | Material components per unit |
|----------|-----------------|-------------------------------------|------------------------------|------------------------|------------------------|------------------------------|
| A | 25 | 3 | 2 | 2 | Shs 30,000 | 8 |
| B | 25 | 4 | 4 | 4 | Shs 75,000 | 5 |
| C | 250 | 7 | 2 | 2 | Shs 30,000 | 8 |
| D | 250 | 10 | 4 | 4 | Shs 75,000 | 6 |

Direct labour cost Shs 7000 per hour.

Details of Overhead costs include the following;

| Overhead costs | Shs |
|---------------------------|------------------|
| Short run variable costs | 8,250,000 |
| Long run variable costs | |
| - Scheduling costs | 7,680,000 |
| - Set-up costs | 3,600,000 |
| - Material handling costs | <u>7,650,000</u> |
| | 27,180,000 |

The following are the cost drivers:

Short term variable costs
Scheduling costs
Set-up costs
Material handling costs

Machine hours
No. of production runs
No. of production runs
No. of material components

Required:

Compute the unit product costs using;

- The traditional costing method (7 marks)
- Activity based costing (12 marks)
- Comment on your answers above (2 marks)

Question Four:

Maggie Company bakes cookies and has provided you with the following information for the year ended 30/11/2021

Unit cost per cookies (shs)

| | |
|----------------------|-------|
| Selling price | 2,000 |
| Direct material cost | 800 |
| Direct labour cost | 600 |
| Variable overheads | 400 |

Fixed costs for the period are 10,000,000/=, units produced and sold are 100,000 units

Required:

- i. Determine the contribution and variable cost ratios. (4 marks)
- ii. Determine Breakeven point in units and revenue (6 marks)
- iii. Determine Margin of Safety in units and revenue (4 marks)

The company targets a profit after tax of 28,000,000/= the corporation tax rate for the company is 30%.

- iv. Determine the number of cookies to be produced and revenue to be earned by the company to meet the profit target (5 marks)
- v.. With the help of a graph' explain the relationship between cost, volume of production and profitability of the organizations according to the Accountants, clearly showing the break-even-points. (6 marks)

Question Five:

- (a) Give reasons why an organization would experience Favorable Material price Variance and Adverse Material Usage Variance. (4 marks)

b) Standard Cost for a Cowboy shoe

| | |
|---------------------------------------|-----------|
| | £ |
| Materials (10units x £20per unit) | 200 |
| Labour (5hrs x £16 per hr) | 80 |
| Variable Overheads (5hrs x £8 per hr) | 40 |
| Fixed Overheads (5hrs x £9 per hr) | <u>45</u> |
| | 365 |

Budgeted Results

Production 10,000 Shoes

| | |
|---------------|---------------|
| Sales | 7,500 Shoes |
| Selling Price | £800 per Shoe |

Actual Results

| | |
|--------------------|---------------------------|
| Production | 8000 Shoes |
| Sales | 6000 Shoes |
| Materials | 85000 units Cost £700,000 |
| Labour | 36000 hrs Cost £330,900 |
| Variable Overheads | £400000 |
| Fixed Overheads | £500000 |
| Selling Price | £260 per Shoe |

Required: Calculate the following variances

- a) Material total variance (3 marks)
- b) Material usage variance (3marks)
- c) Material price variance (3marks)
- d) Labour total variance (3marks)
- e) Labour rate variance (3marks)
- f) Labour efficiency variance (3marks)
- g) Selling price variance (3marks)

Question Six:

- (a) Distinguish between a flexible budget and a fixed budget (3 marks)
- (b) Explain the weakness of the incremental budgeting system and explain ways of addressing these weaknesses (6 marks)
- (c) Using an Organization of your choice, explain why it is essential for that organization to budget. (8 marks)
- (d) GBK Dairy corporation attains sales of UGX 6,000,000 at 80% of its normal capacity. Its expenses are given below:

| | |
|----------------------|-------------|
| Office salaries | 900,000 |
| General expenses | 2% of sales |
| Depreciation | 75,000 |
| Rent and rates | 87,500 |
| Travelling expenses | 2% of sales |
| Salaries Sales | 8% of sales |
| Bonus to sales staff | 1% of sales |
| Wages | 150,000 |
| Rent | 1% of sales |
| Other expenses | 4% of sales |

Required: Draw up flexible budgets to cover the above costs at the following level of activities 90%, 100% and 110% of normal capacity. **(8 marks)**

End of Exam Paper