UGANDA MARTYRS UNIVERSITY
FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT
BAM III SUPPLEMENTARY/SPECIAL ASSESSMENT
MANAGEMENT ACCOUNTING
Date: 05th/08/2015
Time: 3 hours

INSTRUCTIONS
Attempt any (4) Four Questions
All questions carry equal marks
Show all necessary workings

Question One

a. Define Management Accounting (5 marks)
b. Explain the functions of management accounting to an organization (10 marks)
c. Differentiate management accounting from financial accounting (10 marks)

Question Two

a) Explain the following concepts as used in Management Accounting
   i. Contribution margin (3 marks)
   ii. Break even point (3 marks)
   iii. Margin of Safety (3 marks)
   iv. Operating Leverage (3 marks)

b) The company plans to earn an after tax profit of 1,200,000/= and that the income tax rate is 30%. The unit selling price and variable cost amount to 10,000/= and 6,000/= respectively. The fixed costs will amount to UGX 20,000,000.

   Required: Compute the number of units to be produced and sales revenue to be made to achieve that profit target. (13 marks)

Question Three

a) Explain your understanding of the following terminologies. (2 marks each)
   i. Process Costing
   ii. Normal loss
   iii. Abnormal loss
   iv. Abnormal gain

b) The following data relates to one production process of BAM Limited during the month of October 2013

Input materials 1,000 kg costing	\$9,000
Labour Cost	\$18,000
Overhead Cost	\$13,500

A normal loss equal to 10% of input is expected to arise from production. Actual output at the end of the process is 920 kg and any losses generated during the process are sold as scrap for \$9 per kg.

Required: Prepare the following accounts for BAM Ltd. (4 marks each)

- Process account
- Abnormal loss/gains account
- Normal loss account
- Scrap sales account

Question Four

a) Explain what Flexible budgets are and highlight any 3 advantages of flexible budgeting (5 marks)

b) Jesa Dairy Farm attains sales of Ugx 6,000,000 when operating at 80% of its normal capacity. The following expenses are given by the Accountant.

Office salaries	900,000/=
General expenses	2% of sales
Depreciation of machinery	75,000/=
Rent costs	87,500/=
Transport expenses	2% of sales
Sales office expenses	8% of sales
Bonus to sales staff	1% of sales
Salaries to Farm staff	150,000/=
Other expenses	4% of sales

Required: Draw up flexible budgets indicating above costs at the following levels of operating; 90%, 100% and 110%. Compute how much profit will be made by the farm at those levels of operating. (20 marks)

Question Five

a. Explain the following approaches of Budgeting
   - Incremental budgeting (3 marks)
   - Zero-based budgeting (3 marks)
   - Activity Based budgeting (3 marks)

b. Mr. Mugaga who has been in business for the last 3 years is fully convinced that preparing a budget for any business is just wastage of time and resources. He even testifies that for the time he has been in business, he has never made a budget and in fact his business is still showing a positive trend.

You have been identified as a technocrat to advise Mr. Mugaga on the following budgeting issues.

i. The relevance of budgeting to an organization (4 marks)
ii. Advantages and disadvantages of applying zero based approach (6 marks)
iii. Advantages and disadvantages of applying Incremental budgeting approach (6 marks)

Question Six

Explain with examples ***any five*** of the following concepts as used in management accounting (5 marks each)

a. Margin of safety
b. Breakeven point
c. Cost driver rate
d. Relevant costs
e. Incremental budgeting
f. Basic standards