Uganda Martyrs University

Bachelor of Business Administration

FINAL EXAM

COURSE UNIT: **Management Accounting**

DURATION: **3 Hours**

DATE: **Friday, 13th December 2013**

INSTRUCTIONS TO CANDIDATES

1. You are required to answer **four** questions in total.
2. Each question carries 25 marks.
3. All Workings should be included on the Answer sheet. DO NOT WRITE ON THE QUESTION PAPER.
4. Non-programmable, non-text calculators are allowed.

This question paper contains 6 questions and 6 pages

QUESTION 1 (25 marks)

Nkozi (U) Ltd is in a process of preparing its master budget for the 6 months beginning July 2013 to December 2013. The statement of financial position for the year to 30th June 2013 is shown as below;

	Cost	Acc. Depr	NBV
NON-CURRENT ASSETS	Shs "000"	Shs"000"	Shs"000"
Land and Buildings	80,000	--	80,000
Plant and machinery	20,000	12,000	8,000
Motor vehicles	12,000	5,600	6,400
Fixtures and fittings	1,000	440	560
	113,000	18,040	94,960
CURRENT ASSETS			
Inventory –Finished goods		3,600	
- Raw materials		600	
Accounts receivable (May 1,980 and June 1,800)		3,780	
Cash and Bank Balance		14,200	22,180
			117,140
CAPITAL AND LIABILITIES			
Share Capital			100,000
Profit and loss			15,640
			115,640
CURRENT LIABILITIES			
Accounts Payables (raw materials; April 480+ May 280 + June 320)		1,080	
Accounts payable overheads		420	1,500
			117,140

The planned estimates for the first six months to 31st December 2013 are summarized as:

Production cost per unit:	***"Shs"***
Direct materials	*2,000*
Direct labour	*5,000*
Variable overheads	*3,000*
	10,000

Additional Information:

(i) Sales will be at a price of Shs. 18,000 for the three months from 1st July 2013 to 30th September 2013 and at Shs. 18,500 for the remaining three months to 31st December 2013. The forecasted number of sales units are shown in the table below;

Month	July	August	September	October	November	*December*
Units	*120*	*160*	*200*	*200*	*180*	*140*

All units sold will be on credit and customers will pay their accounts two months after they have bought the goods.

(ii) Production will be even at 180 units per month.

(iii) Purchase of direct materials will be on credit as follows;

Month	July	August	September	October	November	*December*
Shs "000"	*440*	*400*	*320*	*280*	*280*	*360*

(iv) Suppliers of raw materials will be paid three months after purchase.

(v) Direct wages are paid in the same month as production occurs.

(vi) Variable overheads are paid each month following that in which the units are purchased.

(vii) A fixed overhead of 180,000 shillings per month is paid each month and is never in arrears.

(viii) A machine costing shillings 1,000,000 will be bought and paid in July. A motor vehicle costing Shs. 4,000,000 will be bought and paid in September.

(ix) A debenture of 10000,000 will be issued and the cash received in November. No interest is charged in this year.

(x) Depreciation is provided for the six months as follows; motor vehicles: Shs. 1,200,000, office furniture: Shs. 60,000, and Machinery: Shs. 1,400,000

Required:

Prepare a cash budget for the six months to 31st December 2013 ***(25 marks)***

QUESTION 2 (25 marks)

(a) Explain four major limitations of the C-V-P model. ***(8 marks)***

(b) Mpain Company produces and sells soft drinks. The company has provided you with the following:

Products:	**Passion Jusi**	**Lemon Jusi**	**Apple Jusi**
Sales mix	2	4	4
Selling price per unit (Ushs)	30,000	25,000	16,000
Cost per unit (Ushs)			
Direct materials	8,000	7,000	5,000
Direct labour	6,000	6,000	3,000
Variable overheads	4,000	2,000	2,000

Fixed costs for the period for all the products; Ushs 60,000,000

Required:

i. *Determine the breakeven point in units and in shillings, in total for each product.* ***(8 marks)***

ii. *How many units of products passion Jusi, lemon Jusi and apple Jusi should be produced and sold to achieve a target net profit of ush.80,000,000* ***(6 marks)***

iii. *Comment on the contribution margins of the three products.* ***(3 marks)***

QUESTION 3 (25 marks)

(a) During a management accounting workshop held last year in June at Hotel Africana in Kampala, Mr. Mbagga heard the following words being said by the guest speaker

"Standard Costing is an important management tool. Setting standards involves rigorous work; however an organization will enjoy numerous benefits as a result of implementing efficient standard costing systems . . . . "

Required

Explain to Mr. Mbagga;

(i) The benefits of applying standard costing technique in organizations. ***(5 marks)***

(ii) Four types of standards that can be adopted by an organization ***(4 marks)***

(b) Jill and Jolly (U) Ltd manufactures a single product with a standard cost of Shs. 250,000 per unit made up as follows:

	Ushs "000"
Direct materials (10kgs at shs 20,000 per kg)	200
Direct labour (5 hours at shs 6,000 per hour)	30
Fixed overheads (10 hours at shs. 2,000 per hour)	20
	250

The monthly budget estimate for production and sales was 10,000 units.

Actual data for the month of November 2013 was as follows:

Production	8,000 units.
Direct materials	78,000kg at shs 18,000 per kg
Direct wages	42,000 hours at shs. 10,000 per hour.
Fixed overheads	Shs. 220 million

Required:

(a) Calculate the following variances for the period ended 31st November 2013:

(i) Materials price variance ***(2 marks)***

(ii) Materials quantity variance ***(3 marks)***

(iii) Labour rate variance ***(2 marks)***

(iv) Fixed overhead expenditure variance ***(3 marks)***

(v) Fixed overhead volume variance ***(2 marks)***

(b) Explain four causes of any negative variance obtained ***(4 marks)***

QUESTION 4 (25 marks)

(a) Compare Activity Based Costing System with the traditional Absorption Costing System. ***(4 marks)***

(b) Explain five benefits that may be enjoyed by management as a result of the introduction of Activity Based Costing Systems in Business Organisations. ***(10 marks)***

(c) Kazinda Enterprises manufactures 1,000 components used to make the final product with the following cost structure;

	Cost per Unit (Ushs)
Direct Materials	3
Direct Labour	7
Variable Overheads	4
Fixed Overheads	3
Total	**17**

Sejusa who is an outside supplier is offering to sell the component to Kazinda for Shs. 13/= each.

Kazinda has hired your consultancy firm in order to assess the viability of the offer from Sejusa and to ascertain whether it's viable to manufacture the component. You have been able to establish the following;

- All the materials required to make the required component are already in the warehouse and have no alternative use at all. The Materials were purchased at a cost of Shs. 2/= per unit.
- The labour force is in short supply and existing labour force is fully occupied. To produce the component, the company will have to divert 3 workers who are currently producing product Q and each worker currently contributes Shs. 3/= per unit if each component is to be produced. The workers are part of the permanent staff but each worker's salary will increase by Shs. 2/= for every component produced.
- If the component is to be produced, the operations manager's salary will increase by shs. 4/= per unit made though the purchasing manager's salary will decrease by shs. 8/= per unit made.
- For every component manufactured or purchased, quality test will be carried out at a rate of Shs. 4/= per unit.

Required

(i) Advise management of Kazinda Enterprises whether the component should be manufactured or purchased or whether the offer by Sejusa should be accepted. ***(7 marks)***

(ii) State four qualitative factors that may affect the decision made in (c) (i) above. ***(4 marks)***

QUESTION 5 (25 Marks)

(a) Explain any ten challenges of budgeting in an organisation like YEE milling company. ***(10 marks)***

(b) The budgeted and actual results of Atacho ltd for September 2013 were as follows.

	Fixed budget	**Actual**
Sales and production	1,000 units	700 units
	UGX	**UGX**
Sales	20,000	14,200
Variable cost of sales:		
Direct materials	8,000	5,200
Direct labour	4,000	3,100
Variable overhead	2,000	1,500
	14,000	**9,800**
Contribution	6,000	4,400
Fixed costs	5,000	5,400
Profit/loss	**1,000**	**(1,000)**

Required:
(i) Prepare a flexed budget and show the performance variances. ***(10 marks)***
(ii) Explain the performance variances calculated. ***(5 marks)***

QUESTION 6 (25 Marks)

(a) Having successfully completed a Management Accounting Course at Uganda Martyrs University Mr. Muhindi Jude landed a post at one of the major banks in Uganda as the Management Accountant. However, one of the directors of the company Mrs. Ayeza Bridget does not believe in the importance of the company employing a Management Accountant.

Required
As the Financial Advisor of the board of directors, explain to Mrs. Ayeza five functions of Management Accounting. ***(10 marks)***

(b) Write brief notes on the following terms as used in management accounting.

i. *Cost driver* ***(3 marks)***
ii. *Relevant costs* ***(3 marks)***
iii. *Variance analysis* ***(3 marks)***
iv. *Profit centre* ***(3 marks)***
v. *Incremental budgeting* ***(3 marks)***

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