

UGANDA MARTYRS UNIVERSITY

FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

DEPARTMENT OF ACCOUNTING AND FINANCE

**CODE: ACC 3104 COURSE: MANAGEMENT ACCOUNTING
FINAL ASSESSMENT**

DATE: 28/01/2022

Time allowed: 3 hours (9:30AM -12:30PM)

Instructions to candidates: Read the following before answering the questions

- 1) Clearly state the question numbers and sections attempted.
 - 2) Write neatly and show all workings.
 - 3) Every question attempted should be started on a new page
 - 4) Attempt 4 questions in all, question one is compulsory.**
 - 5) Plagiarism and all forms of examination malpractice is unacceptable & subject to disciplinary action.
 - 6) Attempting these questions is null & void for those with incomplete coursework
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Question one (compulsory)

- What is a principal budget factor? With specific examples explain why it must be identified & at what point in the budgeting process. (4 marks)
- UMU Graduates Action Ltd, a newly formed company wishes to prepare cash budget for three months of October, November and December 2022. You are provided with the following estimated revenue and expenditure information of the company for the period under review.

Month	Sales (£)	Materials (£)	Wages (£)	Production (£)	Admin & Selling expenses (£)
Jun.	3,000	1,800	650	225	160
Jul.	3,250	2,000	750	225	160
Aug.	3,500	2,400	750	250	175
Sep.	3,750	2,250	750	300	175
Oct.	4,000	2,300	800	300	200
Nov.	4,250	2,500	900	350	200
Dec.	4,500	2,600	1,000	350	225

Additional information

- 10% of sales are in cash. 50% of credit sales are paid in the 3rd month after the sale and the other 50% are paid the following month (4th month).
- Creditors for materials are paid 2 months after the purchase.
- Payment for wages is made in the month they are incurred, while the production costs and administrative & selling expenses are paid in the month after they are incurred.
- The cash and bank balance on 1st October is expected to be £1,500.
- Plant and machinery are to be installed in August at a cost of £24,000. This sum will be paid in monthly installments of £500 each from 1st October.
- Preference share dividends of 5% on £50,000 are to be paid on 1st December.
- Calls on 250 ordinary shares at £2 per share are expected on 1st November.
- Dividends from investments amounting to £250 are expected on 31st December.
- Income tax advance of £500 is to be paid in December

Required

- Prepare a monthly cash budget for the first three months ending 31st December 2022 (18 marks).
- Comment on the cash balance at the end of December 2022 and advise management on the possible decision to take (3 marks).

(Choose 3 questions from the section below)

Question two

- Despite being an important tool that renders various services to management, Management accounting has limitations. Discuss 5 key limitations of management accounting and suggest possible solutions to minimize or eliminate the constraints. (10 marks)
- What is cost behaviour? Explain the factors that affect cost behaviour (8 marks)
- Describe the meaning and the common features of contract costing (7 marks)

Question three

- Explain at least 3 advantages of Activity Based Costing to justify its adoption by a firm that is contemplating to abandon traditional absorption costing system (5 marks)
- Describe the steps to follow in Activity Based Costing (5 marks)
- Savior Company Ltd manufactures 3 products, X, Y & Z. The company has been using traditional absorption costing method to allocate overheads to its products. Due to competition in the market which affects overall profit levels, it is considering ABC system in the hope that, its profitability will improve. Output and cost information for the period just ended are given below.

Products/ Output & cost data	X	Y	Z
production & sales units	15,000	12,000	18,000
Selling price per unit (UGX)	7.5	12	13
Raw material usage per unit	2	3	4
Number of production runs	16	12	8
Number of materials Orders	24	28	42
Number of deliveries to retailers	48	30	62
Direct labour hours per unit	0.1	0.15	0.2
Machine hours per unit	0.5	0.7	0.9

Additional information

- The raw materials cost per kg remained constant throughout the year at UGX 1.2.
- Direct labour cost per hour for the whole workforce was UGX 14.8.
- The annual overheads cost was as follows:

Details	Amount (UGX)
Delivery costs	54,320
Machine running costs	66,400
Procurement costs	48,000
Machine set up costs	26,550

Required:

Determine the cost per unit for each product using Activity Based Costing system. (15 marks)

Question four

- Discuss the characteristics of service costing (5 marks)
- With specific examples describe how to establish service cost unit in a service industry (6 marks)
- Smooth Passenger Transport Company Ltd runs 5 buses between two towns. The Seating capacity of each bus is 40 passengers. The two towns are 40 Kilometers apart. The following details were extracted from the books of the company for the month of August 2021.

	Amount (UGX'000)
Salary(Drivers, Conductors, mechanics & cleaners)	24,000

Salary to supervisors	10,000
Diesel and other oils	40,000
Repairs and maintenance	8,000
Taxation and Insurance	16,000
Depreciation	26,000
Interest	20,000
	<u>144,000</u>

Actual passengers carried were 75% of the seating capacity. All the 5 buses run on all days for the month. Each bus made one round trip per day.

Required

- Calculate cost per passenger – Kilometer (12 marks)
- How much would a passenger pay to travel 500kilometers (2marks)

Question five

- a) Wellness company Ltd produces a single product called “OMEGA” and the following information relates to this product.

Details	OMEGA
Number of units sold per year	100,000
Selling Price per unit	\$75
Variable Cost per unit	\$45
Total fixed cost	\$474,000

Required

- Determine Unit contribution, Total contribution and Contribution Ratio of OMEGA (3marks)
- Calculate the Break –even point (BEP) in units and sales revenue for OMEGA (2 marks)
- compute Margin of safety in units and revenue for OMEGA (4 marks)
- What is the profit that will be earned, when 95,000 units of OMEGA are sold? (2marks)
- How many units of OMEGA should be sold to earn a target profit of \$60,000? (3 marks)
- Explain the steps that management can take to improve unsatisfactory margin of safety, provide at least 3 points (6 marks).

- b) Assume Wellness company Ltd makes two products, Plumy and Mean. The Present revenue, cost, and sales data on the two products are as follows.

	Plumy	Mean
Selling price per unit	\$15	\$100
Variable expenses per unit	\$9	\$20
Number of units sold per year	20,000	5,000
Fixed expenses total per year.	\$475,800	

Required

- The contribution margin ratio of each product (1 mark).
- The weighted Contribution Margin ratio (2 marks).
- The yearly break-even point in units & sales revenue for the two products (2 marks).

Question six

- a) What are standards? Justify the need for Standard Costing in a business organization (8 marks)
- b) As a new employee recruited to improve performance in Success Company Ltd. your supervisor has given you the following information concerning the materials and labour used in manufacture of their products

Information on materials		Information on labour	
Output during the year	80 tons	Gross direct wages	\$ 36,000
Quantity of materials purchased	3,000 units	Standard hours produced	2,000
Value of materials purchased	\$ 9,000	Standard rate per hour	\$15
Standard quantity of materials		Actual hours paid (includes idle time)	1,800
Units required per ton of output	30 units	Abnormal idle time (hours not worked)	50
Standard rate of materials per unit	\$2.50		
Closing stock of materials	500 units		

Required:

- Material variances (Material cost variance, Material price variance and Material usage variance). (6marks)
- Labour variances (Labour cost variance, Labour rate variance, Labour efficiency variance and idle time variance.) (8 marks)
- What are the key causes of labour variance in a firm? (3 marks)

GOOD LUCK