UNIVERSITY OF EDUCATION, WINNEBA

COLLEGE OF TECHNOLOGY EDUCATION, KUMASI
FACULTY OF BUSINESS EDUCATION
DEPARTMENT OF ACCOUNTING STUDIES EDUCATION

ACC 232 MANAGEMENT ACCOUNTING

TIME ALLOWED: 2HRS 15 MINS

Instruction: Answer QUESTION 1 and ANY other TWO Questions

Question 1

a. You have been asked by the owner of a small enterprise in your neighbourhood to help him understand the difference between management accounting and financial accounting to enable him make a decision as whether to hire a management accountant.

Required:

Clearly distinguish between management accounting and financial accounting based on **four (4)** different attributes. **(8 marks)**

b. The following data relates to Futprynt Company Limited. Futprynt began operations on January 1, 2013, to manufacture hand-held electronic calculators. The company uses a standard-costing system. Cost, production, and sales data for the first three years of Futprynt operations are given below.

Futprynt Company Limited: Standard Cost Sheet

Financial Year	**2013**	**2014**	**2015**
Production and inventory data:			
Planned production (in units)	50,000	50,000	50,000
Finished-goods inventory (in units), January 1	---0---	---0---	15,000

Actual production (in units)	50,000	50,000	50,000
Sales (in units)	50,000	35,000	65,000
Finished-goods inventory (in units), December 31	---0---	15,000	---0---

Revenue and cost data, all three years:	GH¢
Sales price per unit	12
Standard manufacturing costs per unit:	
Direct material	3
Direct labour	2
Variable manufacturing overhead	1
Total variable standard cost per unit	6

Non-manufacturing overheads

Variable selling and administrative cost per unit	1

Budgeted annual fixed manufacturing overhead is GH¢150,000 whereas fixed selling and administrative cost per year is estimated at GH¢25,000. There were no variances during the periods.

Required:

Prepare comparative income statements for 2013, 2014, and 2015 using both absorption and variable costing techniques from the data provided.

(12 marks)

[Total: 20 marks]

Question 2

a. Outline any **four (4)** assumptions of cost-volume -profit analysis? **(4 marks)**

b. Kasapa Company manufactures and sells a specialized cordless telephone for high electromagnetic radiation environments. The company's contribution format income statement for the most recent year is given below;

	Total (GH¢	**Per Unit(GH¢)**	**Percent of Sales**
Sales (20,000 units)	1,200,000	60	100%
Variable expenses	900,000	45	? %
Contribution margin	300,000	15	?%
Fixed expenses	240,000		
Net Operating Income	**60,000**		

Management is anxious to increase the company's profit and has asked for an analysis of a number of items.

Required:

i. Compute the company's Contribution Margin ratio and variable expense ratio.

ii. Compute the company's break-even point in both units and sales value. Use the equation method.

iii. Assume that sales increase by GH¢400, 000 next year. If cost behaviour patterns remain unchanged, by how much will the company's net operating income increase? Use the Contribution Margin ratio to compute your answer.

iv. Refer to the original data. Assume the next year management want the company to earn a profit of at least GH¢90,000. How many units will have to be sold to meet this target profit?

v. Refer to the original data. Compute the company's margin of safety in both dollar and percentage form.

vi. In an effort to increase sales and profits, management is considering the use of a higher-quality speaker. The higher-quality speaker would increase variable costs by GH¢3 per unit, but management could eliminate one quality inspector who is paid a salary of GH¢30,000 per year. The sales manager estimates that the higher-quality speaker would increase annual sales by at least 20%.

a. Assuming that changes are made as described above, prepare a projected contribution format income statement for next year. Show data on a total, per unit, and percentage basis.
b. Compute the company's new break-even point in both units and value of sales. Use the formula method.
c. Would you recommend that the changes be made?

(16 marks)

[Total: 20 marks]

QUESTION 3

a. Explain the following terms:
   i. Relevant range
   ii. Relevant costs **(3 marks)**

b. Distinguish between period costs and products costs. **(2 marks)**

c. One of the divisions within Cape Coast Autos is currently negotiating with another supplier regarding outsourcing component A that it manufactures. The division currently manufactures 10,000 units per annum of the component. The costs currently assigned to the components are as follows:

	Total costs of Producing 10,000 components	**Unit Cost**
	GH¢	**GH¢**
Direct materials	120,000	12
Direct labour	100,000	10
Variable manufacturing overhead cost (power and utilities)	10,000	1

Fixed manufacturing overhead costs	80,000	8
Share of non-manufacturing overheads	50,000	5
Total costs	360,000	36

The above costs are expected to remain unchanged in the foreseeable future if the Cape Coast Autos division continues to manufacture the components. The supplier has offered to supply 10,000 components per annum at price of GH¢30 per unit guaranteed for a minimum of three years.

If Cape Coast Autos outsource component A the direct labour force currently employed in producing the components will be made redundant. No redundancy costs will be incurred. Direct materials and variable overheads are avoidable if component A is outsourced. Fixed manufacturing overhead costs would be reduced by GH¢10,000 per annum but non-manufacturing costs would remain unchanged. The capacity that is required for component A has no alternative use.

Required: Should the Division of Cape Coast Autos make or buy the component? Support your answer with relevant calculations. **(15 marks)**

[Total: 20 marks]

Question 4

a. Explain the following terms:
   i. Limiting factor
   ii. Budget **(4 marks)**

b. The owner of Excellent Limited, a small mining supply company has requested a cash budget for June. After examining the records of the company, you find the following:

i. Cash balance on June 1 is GH¢345.

ii. Actual sales for April and May are as follows:

	April	May
	GH¢	GH¢
Cash sales	10,000	15,000
Credit sales	25,000	35,000
Total sales	35,000	50,000

iii. Credit sales are collected over a 3-month period: 50 percent in the month of sale, 30 percent in the second month, and 15 percent in the third month. The sales collected in the third month are subject to a 1.5-percent late fee, but only half of the affected customers pay the late fee, and the owner does not think it is worth his while to try to collect from the other half. The remaining sales are uncollectible.

iv. Inventory purchases average 60 percent of a month's total sales. Of those purchases, 40 percent are paid for in the month of purchase. The remaining 60 percent are paid for in the following month.

v. Salaries and wages total GH¢8,700 a month, including a GH¢4,500 salary paid to the owner.

vi. Rent is GH¢1,200 per month.

vii. Taxes to be paid in June are GH¢5,500

Required:

Prepare a cash budget for June. Include supporting schedules for cash collections and cash payments. **(16 marks)**

[Total: 20 marks]