MANAGEMENT ACCOUNTING
TUTORIAL QUESTIONS

1. Apart from volume of output, enumerate FOUR other factors that influence cost behavior.
2. In reaction to volume of production, distinguish between the behavior of fixed cost and variable cost.
3. Describe how marginal and absorption costing techniques differ in the treatment of fixed manufacturing overheads.
4. Outline any FOUR assumptions of break-even analysis.
5. Explain whether or not all fixed costs are irrelevant costs.
6. The following information relates to AJ Afrique, dealers in African print shirts and dresses.

	GH¢
Selling price per shirt	180
Cost of fabric required for a shirt	50
Tailor's charge for sewing a shirt	36
Variable production overhead per shirt	4

The fixed production overhead incurred in March was GH¢19,800.
Selling, distribution and administration expenses:

- Fixed GH¢8,000 per month
- Variable 8% of the sales volume.

The factory budgets to produce 1,100 shirts per month and there were no stocks in trade on 1st March. Actual production was 1,220 shirts in March and 1,020 shirts were sold.

You are required to:

a) Prepare income statement using:

i. Marginal costing technique
ii. Absorption costing technique

b) Reconcile the reported profits in (i) and (ii)

c) How many shirts should the firm produce to:

i. Break-even?
ii. Make a profit of GH¢20,000?

7. Paa Bobole Ltd is a manufacturing company that produces assorted products for the real estate industry. The following information relate to the company:

	¢
Selling price	100
Direct material cost per unit	36
Direct labour cost per unit	8
Variable production overhead per unit	6

Monthly fixed costs are:

Production overhead	190,000
Selling expenses	28,000
Administration	52,000

A commission of 10% on sale values is paid to sales executives and this represents a variable overhead expenses.

You are required to compute the:

a.
   i. Number of units to be produced to breakeven and the breakeven sales.
   ii. Level of sales to make an after-tax profit of GH¢30,000 if applicable corporate tax rate is 25%.

b. Assume that because of increasing cost, the material cost is expected to rise by GH¢ 10 per unit and fixed selling expenses and fixed administrative overheads by GH¢2,000 and 8,000 respectively. If the selling price cannot be increased, what would be the number of units required to maintain a profit of GH¢30,000 without assuming any related tax?

c. Assume, without recourse to (b) above, that the company produces 11,000 units per month and there were no inventories in existence on January 1. Actual production was 12,200 units in January and 10,200 units were sold.

   You are required to compute the:

   i. Full cost per unit and prepare the absorption costing income statement.
   ii. Marginal cost per unit and prepare marginal costing income statement.