NATIONAL OPEN UNIVERSITY OF NIGERIA
14/16 AHMADU BELLO WAY, VICTORIA ISLAND, LAGOS
SCHOOL OF MANAGEMENT SCIENCES
SEPTEMBER/OCTOBER 2015 EXAMINATION

COURSE CODE: **ACC313** **CREDIT UNIT: 3**
COURSE TITLE: **MANAGEMENT ACCOUNTING**
TIME ALLOWED: **2 1/2 HOURS**
INSTRUCTIONS:

1. Attempt question number one (1) and any other three (3).

2. Question number 1 is compulsory and carries 25 marks while the other carry 15 marks each.

3. Present all your points in coherent and orderly manner.

QUESTION ONE

Johnson Company Limited is a large integrated conglomerate with shipping, metals and mining operations throughout the country. The General Manager of the shipping division has been directed by the Board to submit his proposed capital budget for 2016 for inclusion in the company wide budget. The Divisional Manager is considering the following projects, all of which require an outlay of capital and have equal risk.

Project	Investment required	Return
	N‟000	N‟000
1	24,000	5, 520
2	9, 600	3, 072
3	7, 000	980
4	4, 800	864
5	3, 200	640
6	1, 400	392

The Divisional Manager must decide which of the projects to accept. The company has a cost of capital of 15%. An amount of N60 million is available to the division for investment purposes.

Required:

Compute the total investment, total return on capital invested and residual income on each of the following assumptions, indicating the preferred project:

a). The company has a rule that all projects promising at least 20% or more should be accepted.

b). The divisional manager is evaluated on his ability to maximise his return on capital invested.

c). The divisional manager is expected to maximize residual income as computed by using the 15% cost of capital.

QUESTION TWO

Angold and printing compny is a company that is specialised in printing jobs. The Managing Director is sadled with the task of preparing bids for most of the company’s jobs. His cost budget for 2016 is as follows:

	N	N
Material		500,000
Labour		200,000
Overhead:		
Variable	250,000	
Fixed	150,000	400,000
Total production cost of the job		1,100,000
Selling and Administration:		
Variable	85,000	
Fixed	120,000	205,000
Total cost		1,305,000

He has a target profit of N295, 000 for the year 2016.

Required:

a. In respect of the job, compute the average target mark-up percentage for setting prices as a percentage of

i. Prime costs
ii. Variable production cost
iii. Total production cost
iv. All variable costs
v. Total costs

b. Explain the major factors involved in pricing decisions.

QUESTION THREE

Magama Ltd. has the following total factory overhead computed at both the high and low levels of activity for a given month of operation:

Levels of activity	High	Low
Direct labour hours	150,000	100,000
Total factory cost(N)	352,500	284,000

The total factory overhead above consists of indirect materials, repairs and rent expenses. The company has analysed, at the 100,000 direct labour hours of activity level that costs exist in the following proportions:

	N
Indirect materials (variable)	100,000
Repairs	64,000
Rent (fixed)	120,000
	284,000

For planning purposes, the company wishes to break the repairs cost into its variable and fixed elements

You are required to:

(a) Determine how much of the N352,500 total factory overhead costs at the high level of activity above that relates to repairs costs.
(b) Determine by means of the high and low method of cost analysis, the cost function for the repairs cost.
(c) State three major problems involved in separating mixed costs into fixed and variable elements in practice.

QUESTION FOUR

Topclass Limited produces two products “Ade and Ada”. The standard times for the production of the products are 30 minutes for Ade and 45 minutes for Ada. The budget for January is 60,000 units of Ade and 24,000 units of Ada.

During the month, 28,000 labour hours were worked and 40,000 units of Ade and 15,000 units of Ada were produced.
You are required to compute the following and interpret your result:
(i) The activity ratio
(ii) The efficiency ratio
(iii) The capacity ratio
b. State and explain briefly SIX objectives of budgetary control.

QUESTION FIVE
The following information has been gathered with regard to material X of Adams Ltd.

	Units
Normal month usage	24,600
Maximum anticipated monthly usage	27,000
Minimum anticipated monthly usage	6,400
Delivery period from suppliers:	
Maximum	3 months
Normal 2 months Minimum	1.2 month
Re-order quantity (EOQ)	10,000 units

Required:
(a) Calculate:
(i) Re-order level
(ii) Minimum stock level
(iii) Maximum stock level.
(b) Comment on four factors, which may have to be taken into accounts in setting the maximum stock level
(c) The company required 80,000 units per year which will be used at a constant rate. The purchasing manager is considering what size to be used. The holding cost is 20% of the purchase price. The cost per order is N2,500 while the purchase price is N24 per unit. Calculate Economic Order Quantity, using the formula.

QUESTION SIX
Amanda Nigerian Limited began work on 1 January 2010 on a contract for the building of an extension to new Lagos road amounting N1,800,000. The retention on contract is agreed at 10%. On November 2010 the certificate of work approved amounted to N1,200,000. The following information is available.

	N
Materials sent to site	450,000
Labour engaged on site	360,000
Plant installed at cost	180,000
Direct expenditure	72,000
Establishment charges	150,000
Materials returned to stores	15,000
Cost of work not yet certified	90,000
Materials on site at 31 December 2010	45,000
Wages accrued at 31 December 2010	15,000
Direct expenses accrued at 31 December 2010	3,000
Value of plant at 31 December 2010	120,000

You are required to complete the Contract Account, showing the amount of profit likely to be taken into annual accounts to 31 December 2010 and to calculate the value of work in progress.