TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS STUDIES

DEPARTMENT OF ACCOUNTING AND FINANCE

UNIT CODE: BAC 5102 UNIT TITLE: MANAGERIAL ACCOUNTING

SERIES: SEP/DEC SERIES

TERM PAPER ONE

TIME: 3 HOURS

INSTRUCTIONS: ANSWER QUESTION 1 AND ANY OTHER THREE QUESTIONS

Question 1

a) State the C-V-P Analysis assumptions **(5marks)**

b) With the help of graphs show the accountants and the Economists view of Break –even chart **(5Marks)**

c) The following data is available for ABC enterprise showing the expected Sales level their probabilities for two products A and B,

Sales Volume	Product A	Product B
4000	0.1	0
5000	0.2	0.25
6000	0.4	0.5
7000	0.2	0.25
8000	0.1	0

Required

a) Advice the management on the product to launch based on EV method (**10 Marks**)

b) Also carry out the risk analysis on the same and advice the management **(5 Marks)**

Question 2

Lengo Ltd manufactures three products namely A, B and C. The data below relate to the three products:

	Product		
	A	B	C
	Shs	Shs	Shs
Selling Price	250	320	460
Variable Overheads	16	20	28
Labour (installation)	24	32	44
Labour (manufacturing)	40	55	70
Raw materials	70	110	155

Additional information:

1. Highly skilled labour is required for installation of the three products in the customer's premises. A maximum of 25,000 hours of highly skilled labour are currently available at sh.8 per hour during the production period**.**

2. Fixed costs for the production periods are Sh. 450,000

3. The maximum demand for products are A, B, and C are 2,000 units, 3000 units and 1,800 units respectively.

Required

a) The current Shortfall in highly skilled labour at maximum demand. **(5 Marks)**

b) The optimal production mix and the resultant profit.**(10Marks)**

c) Suppose that an increase in the labour rate per hour to sh. 12 for the highly skilled installation labour would provide adequate labour at maximum demand. Determine if it is worthwhile to increase the labour rate. **(10Marks)**

Question 3

a) Write short notes on the following terms in strategic management accounting:

   i) Life –cycle costing **(6Marks)**

   ii) Target costing   **(5Marks)**

b) Mapato Ltd, a medium –Sized company is run on divisional basis. All divisional managers are evaluated annually and those with outstanding performance rewarded

The divisional manager of Division Z is faced with the following mutually exclusive investment projects.

		Project A	Project B
		Shs.	Shs.
Initial capital investment		12,000,000	10,400,000
Net Cash flows	2007	4,800,000	5,200,000
	2008	4,800,000	4,400,000
	2009	4,800,000	3,00,000
	2010	4,800,000	2,000,000

Additional Information:

   i) The company's required to have a residue value and initial capital outlay is to be amortized evenly.

   ii) Both projects are expected to have a residue value and the initial outlay is to be made on 31st December 2012

   iii) All cash flows are assumed to accrue at the end of each year.

   iv) In determining the expected divisional returns, divisional assets are valued at net book value at the beginning of each year.

v) Ignore taxation

Required:

Advice the divisional Manager of Z on the project that maximizes the divisional performance in the long run based on:

i) Residue income   (7Marks)

ii) Return on investment. (6Marks)

Question 4

Comment on the following terms as used in management accounting:

i)   Learning curve effect in cost estimation **(6Marks)**

ii) Cost indifference and break –even point **(7Marks)**

iii) Relevant and irrelevant costs **(6Marks)**

iv) Applications of marginal costing in short term decision making   **(6Marks)**

Question 5

a) Metech Ltd is the process of developing a new product branded "Valida". During its expected life, it is expected that 16,000 units of "Valida" will be sold at a price of Sh. 250 per unit.

Additional information:

i)   The direct material and other non- labour related costs will be Sh. 1.50 per unit throughout the life of the product

ii) Production is expected to be in batches of 1,000 units throughout the life of production.

iii) The direct labour cost is expected to reduce due to the effects of learning for the first 8 batches produced. Thereafter, the cost will remain at the same cost per batch as the 8th batch.

iv) The direct labour cost of the first batch of 1000 units is expected to be Sh. 120,000

v) A learning effect of 80% is expected to occur

vi) The learning index for an 80% learning curve = -0.355

Required:

a) Average direct labour cost per batch of the first 8 batches **(6Marks)**

b) Direct labour cost of the 8th batch **(5Marks)**

c) Contribution to be earned from the product over its lifetime. **(4Marks)**

b) i) Briefly explain the similarities and the differences between residue income (RI) and economic value added (EVA) as methods of assessing performance. **(6Marks)**

iii) Briefly outline the advantages and disadvantages of point Centre managers participating in the budget setting of their units **(4Marks)**

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