TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

DACC, DBA, DBM AND DPMM

BAC 2202: MANAGEMENT ACCOUNTING 1

END OF SEMESTER EXAMINATION

SERIES:AUGUST2019

TIME:2HOURS

DATE: Pick DateAug2019

Instructions to Candidates

You should have the following for this examination

-Answer Booklet, examination pass and student ID

This paper consists of **FIVE** questions. Attemptquestion ONE (Compulsory) and any other TWO questions.

Do not write on the question paper.

Question ONE

a. A yatch company has developed a new cabin cruiser which they earmarked for the medium to large board market. A market analysis has a 30% probability of annual sales being 5000 boats, and a 40% probability of 4000 annual sales. This company can go into limited production while available costs are sh.10,000 per

boat and a fixed cost and sh.800,000 annually. Alternatively they can go into full production where variable cost are sh.9000 per boat and fixed costs are sh.5,000,000 annually, if the new boat is to be sold for shs.11,000 should the company go to limited or full scale production when the objective is to maximized expected profits, make your decision by use a tree diagram. (10 marks)

ii) Describe the decision making process (10 marks)

b. Briefly discuss the difference between financial and managerial accounting? (10 marks)

Question TWO

a) Assume that the product manager of ABC Ltd is concerned about the apparent fluctuations in efficiency and therefore work done by employees which are related to the volume. The result of this in most 12 weeks research carried out is as shown below;

Week	Machine hours (cost driver)	indirect labor costs$
1	68	1,190
2.	88	1,211
3.	62	1,004
4.	72	917
5.	60	770
6.	96	1,456
7.	78	1,180
8.	46	710
9.	82	1,316
10.	94	1,032
11.	68	752
12.	48	963

Required;

i. Using high low method estimate the cost function (10 marks)
ii. Find the indirect labor costs associated with 90 machine hours (3 marks
iii. The machine hours that $1,000 of indirect labor cost would produce (3 marks)

b). Briefly explain the situations where the following decision making techniques are used:

i. Grid analysis (2 marks)
ii. Portfolio analysis (2 marks)

Question THREE

a. A hospital records show that the cost of carrying health checks in the last five accounting periods has been as follows;

Period	No of patients seen	Total cost
1.	650	17,125
2.	940	17,800
3.	1260	18,650
4.	990	17,980
5.	1150	18,360

Required: Estimate the cost of carrying out health checks on 850 patients using
i) Regression model (8 marks)
ii) High – low method (4 mark

b. Briefly discuss the criticisms of CVP analysis (8 marks)

Question Four

a. Discuss the steps to cost estimation**.** (8 marks)

b. East African Cables Ltd is considering replacing its metal smelting machine a newer more efficient model but with an overall shorter life. Revenues from cables (Ksh. 1.1m) will be unaffected by the replacement decision

	Old Machine	New Machine
Original cost	1,000,000	600,000
Useful life	5 yrs	2 yrs
Current age	3 yrs	0 yrs
Remaining useful life	2 yrs	2 yrs
Accumulated depreciation	600,000	Not acquired yet
Book value	400,000	Not acquired yet
Current disposal price	40,000	Not acquired yet
Terminal disposal price in 2 years	0	0
Annual operating costs (repairs coolants etc)	800,000	460,000

To focus on the main concept of relevance we ignore time value of money and income taxes.
Should E.A C. Ltd replace the existing machine? **(**12 marks)

Question FIVE

Noma Enterprises operate in the leisure and entertainment industry and one of its activities is to promote concerts at locations throughout East Africa. The company is examining the viability of a concert in Kampala. Estimated fixed costs are sh.6million. These include the fees paid to performers, the hire of the venue and advertising costs. Variable costs include the cost of a pre-packed buffet which will be provided by a firm of caterers at a price, which is currently being negotiated, but it is likely to be in the region of sh.1,000 per ticket sold. The proposed selling price per ticket is sh.2,000. The management of Noma have requested the following information:

(a) The number of tickets that must be sold to break-even. (4 marks)
(b) How many tickets must be sold to earn sh.3million target profit? (4 marks)
(c) What profit would result if 8,000 tickets were sold? (4 marks)
(d) What selling price would have to be charged to give a profit of sh.3million on sales of 8,000 tickets, fixed costs of Sh.6million and variable costs of sh.1,000 per ticket? (4 marks)
(e) How many additional tickets must be sold to cover the extra cost of television advertising of sh.0.8million. (4 marks)