TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

DACC, DBM, DBA & DPMM

BAC 2202: MANAGEMEMENT ACCOUNTING I

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 company is considering accepting a one-year contract which will require four skilled employees. The 4 skilled employees could be recruited on a one-year contract at a cost of sh.4,000,000 per employee. The employee would be supervised by an existing manager who earns sh.6,000,000 per annum. It is expected that supervision of the contract would take 10% of the manager's time.
Instead of recruiting new employees, the company could retrain some existing employees, who currently earn sh.3,000,000 per year. The training would cost sh.1.5million in total. If these employees were used they would need to be replaced at a total cost of sh.10million.

Required:
Determine the relevant labour cost of the contract. (8 marks)

(b) What is a master budget? Briefly describe its contents. (6 marks)

(c) Easy Ltd manufactures two products namely X and Y.

The company uses 2 materials A and B in the manufacture of these products. The following information is given for the year 20X0.

(i) Budgeted Sales

Product	Quantity	Price
X	10,000	400
Y	8,000	300

(ii) Materials Used

Material	A	B
	Sh	Sh
Unit cost	50	80

Quantity Used

X	5 Kg	3 Kg
Y	4 Kg	4 Kg

There were no stocks at the beginning of the year.
Stocks at the end of the year are expected to be:
X 1,000 Kg : Y 500Kg

Required:
Prepare
(a) Sales budget (4 marks)
(b) Production budget (4 marks)
(c) Material usage in quantities budget (4 marks)
(d) Materials purchase in quantity and value. (4 marks)
(Total = 30 marks)

Question TWO

Using a diagram, explain the decision-making process by the management in your organization.
(20 marks)

Question THREE

Amani Co. Ltd is preparing its budget for the year to 30 June 20X1. In respect of fuel consumption, it is desired to estimate an equation of the form y = a + bx, where:
y is the total expense at an activity level x,
a is the fixed expense, and
b is the rate of variable cost.

The following data relate to the year ending 30 June 20X0.

Month	Machine Hours (000)	Fuel oil Expense Sh.000
July	34	640

August	30	620
September	34	620
October	39	590
November	42	500
December	32	530
January	26	500
February	26	500
March	31	530
April	35	550
May	43	580
June	48	680

The annual total and monthly average figures for the year ending 30 June 20X0 were as follows:

	Machine hours (000)	Fuel oil expense Sh.000
Annual total	420	6840
Monthly Average	35	570

Required:

(a) Estimate fixed and variable cost elements of fuel oil expense from the above data by both the following methods:

(i) High-low method (4 marks)

(ii) Least squares regression analysis. (9 marks)

(b) Compare briefly the methods used in (a) above in relation to the task of estimating fixed and variable elements of a semi-variable cost. (7 marks)

(Total=20 marks)

Question FOUR

The following data are supplied relating to two investment projects, only one of which may be selected:

	Project A Sh.000	Project B Sh.000
Initial capital expenditure	50,000	50,000
Cashflow – Year 1	25,000	10,000
2	20,000	10,000
3	15,000	14,000
4	10,000	26,000
Estimated resale value at end of year 4	10,000	10,000

Notes:

1. Cashflow (Profit) is calculated after deducting straight line depreciation.
2. The cost of capital is 10%.

Required:

(a) Calculate for each project:

(i) Average annual rate of return on average capital invested; (4 marks)

(ii) Payback period (4 marks)

(iii) Net present value (4 marks)

(b) Briefly discuss the relative merits of the three methods of evaluation mentioned in (a) above. (6 marks)

(c) Explain which project you would recommend for acceptance. (2 marks)

(Total = 20 marks)

Question FIVE

a. Assume that a company intends to sale product in the market, at a selling price of sh.9 per unit. The V C is shs.5 per unit and the T F C is sh.2000

Required:

i. Compute the B E P in units and in shs. (6 marks)

ii. Assume that the company intends to make a profit before tax of 20% of sales, determine the number of units that must be sold. (3 marks)

iii. Assume that the corporate tax rate is 30% and the company has a target profit of 1640 after tax. Compute the number of units that must be sold to earn this target profit (3 marks)

iv. If the company expects to sale 600 units, compute the marginal of safety. (3 marks)

a. Discuss the assumption of a CVP analysis (5 marks)

(Total = 20 marks)