PAN AFRICA CHRISTIAN UNIVERSITY

BACHELOR OF BUSINESS LEADERSHIP

END OF TERM EXAMINATION

DEPARTMENT:

COURSE CODE: CAC 301

COURSE TITLE: MANAGEMENT ACCOUNTING

EXAM DATE: APRIL 2021

TIME: 3 HRS

INSTRUCTIONS

- Read all questions carefully before attempting.
- Answer **QUESTION ONE AND ANY OTHER THREE**
- Write your **student number** on the answer booklet provided.

QUESTION ONE [COMPULSORY] – 10 MARKS

Provide the most accurate choice in each of the following questions

1. ABC company sells shoes for $450. The variable cost is $200 per unit. The fixed costs are $750,000. What is the breakeven in sales dollars?
   A. $750,000
   B. $937,500
   C. $1,350,000
   D. $1,687,500
2. ABC company sells shoes for $450. The variable cost is $200 per unit. The fixed costs are $750,000. The company wants to have a profit of $250,000. How many units do they have to sell to achieve this goal?
   A. 3,000
   B. 4,000
   C. 5,000
   D. 6,000
3. Determine the margin of safety ratio from the following data:

Sales	$30 per unit
Variable Cost	$10 per unit
Units Sold	750 units
Fixed Costs	$10,000

   A. 20%
   B. 33%
   C. 45%
   D. 75%
4. X Company uses activity-based costing for Product B and Product D. The total estimated overhead cost for the parts administration activity pool was $550,000 and the expected activity was 2000-part types. If Product D requires 1200 part types, the amount of overhead allocated to product D for parts administration would be:
   A. $275,000
   B. $300,000
   C. $330,000
   D. $345,000
5. Which of the following is a limitation of activity-based costing?
   A. Costs are accumulated by each major activity
   B. A variety of activity measures are used
   C. All costs in an activity cost pool pertain to a single activity
   D. Activity-based costing relies on the assumption that the cost in each cost pool is strictly proportional to its cost measure

6. Which of the following statements related to Contribution Analysis are true?
   A. If contribution is zero, there is loss equal to fixed costs
   B. If contribution is negative, loss is less than fixed costs
   C. If contribution is positive and more than fixed cost there will be profit
   D. All of the above
7. Under absorption costing, managerial decisions are based on
   A. Profit
   B. Contribution
   C. Profit volume ratio
   D. None of the above
8. An abnormal gain in a process occurs in which of the following situations?
   A. When actual losses are greater than the normal loss level.
   B. When costs are reduced through increased machine speed.
   C. When actual losses are less than the normal level.
   D. When the process output is greater than planned.
9. Which of the following is the best explanation of the relevance of equivalent production units in process costing?
   A. A means of equalizing production charged into stock each period.
   B. The conversion partly completed units into an equivalent number of completed units in order that costs may be shared on an equitable basis.
   C. The expression of losses in terms of an equivalent number of units of good production in order that their value may be calculated.
   D. A means by which the output achieved may be compared with the equivalent quantity budgeted for the period under review.
10. A manufacturing process had no work-in-progress at the start of a period and no losses during the period. 3,200 units of raw material were input to the process during the period. 2,800 units were completed in the period. Closing work-in-progress was 100% complete with respect to materials and 70% complete with respect to conversion costs. What were the equivalent units of production in the period?

	Materials	Conversion costs
A.	3,200	960
B.	2,800	280
C.	3,200	3,080
D.	2,800	120

QUESTION TWO

The budgeted overheads and cost driver volumes of XYZ Ltd are as follows.

Cost pool	Budgeted Overheads	Cost driver	Budgeted

	(Sh.)		Volume
Materials procurement	580,000	No. of orders	1,000
Material Handling	250,000	No. of movements	680
Set up	415,000	No. of set-ups	520
Maintenance	970,000	Maintenance hours	8,400
Quality control	176,000	No. of inspections	900

The company has produced a batch of 2,600 components of AX-15. The material cost was Sh. 130,000 and labor cost Sh. 245,000.

The usage activities of the said batch are as follows.

Material orders – 26, maintenance hours – 690, material movements – 18, inspection – 28, set ups – 25.

Calculate:

a) The cost driver rates that are used for absorbing appropriate amount of overheads to the said batch [5 marks]
b) The cost of batch of components using Activity Based Costing. [5 marks]

QUESTION THREE

A retail dealer in garments is currently selling 24, 000 shirts annually. He supplies the following details for the year ended 31st March 2017.

Selling price per shirt: Sh.800

Variable cost per shirt: Sh.600

Fixed Costs:

Staff salaries: Sh.2,400,000

General Office Cost: Sh.800, 000

Advertising Cost: Sh.800, 000

a) Calculate Break Even Point and margin of safety in sales revenue **[2 marks]**
b) Assume that 30, 000 shirts were sold during the year, find out the net profit of the firm **[4 marks]**
c) Assuming that in the coming year, an additional staff salary of Sh.1,000, 000 is anticipated, and price of shirt is likely to be increased by 15%, what should be the break-even point in number of shirts? **[4 marks]**

QUESTION FOUR

Product B is obtained after it passes through three distinct processes. The following information is obtained from the accounts for the week ending on 31st March 2020.

Particulars	Total	Process 1	Process 2	Process 3
Direct Material costs	7542	2600	1980	2962
Direct wages costs	9,000	2000	3000	4000
Production Overheads	9,000			
Normal loss		5%	10%	15%
Normal loss scrap value/unit		2	4	5
Actual output		950	840	750

Additional Information:

i. 1,000 units @ Sh. 3 per unit were introduced in Process 1

ii. Production overheads were absorbed at a rate of 100% of direct wages

Required:

a) Prepare the process cost Accounts for each process **[7 marks]**

b) Prepare the abnormal loss account **[3 marks]**

QUESTION FIVE

Marion Corporation has provided you with the following information for a certain year:

Selling price per unit . . . . $ 22

Variable cost per unit:

Direct materials . . . . $ 4

Direct labor $4

Variable factory overhead $2

Variable cost per unit . . . . **. $10**

Fixed cost per unit:

Fixed factory overhead per year . . . . $ 360,000

Fixed selling and administrative expense per year $48,000

Normal unit production per year 72,000

Month	**Units Produced**	**Units Sold**
October	6,000	3,000
November	1,000	4,000

Required:

Prepare Costing profit statements for each of these two months under each of the following:

i. Absorption costing **[5 marks]**

ii. Marginal costing. **[5 marks]**

QUESTION SIX

a) Leisure Products, Inc., manufactures and sells two products, golf balls and tennis balls. Fixed costs are $100,000, and unit sales are 60,000 golf balls and 40,000 tennis balls. The unit sales prices and unit variable costs are as follows:

Product	Unit Sales Price	Unit Variable Cost
Golf balls	$6	$3.00
Tennis balls	$4	$1.50

Compute:

i. The sales mix percentages **[2 marks]**

ii. The number of balls of each type at the break-even point **[4 marks]**

b) Lewis Products, Inc. targets to earn an after-tax income of $150,000. It has fixed costs of $1,000,000, and a selling price of $500 per unit. The variable costs per unit is $200. The company is in the 30% tax bracket. Determine:

i. The amount of sales revenue that must be earned to achieve the targeted profit **[4 marks]**