UGANDA MARTYRS UNIVERSITY

FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

DEPARTMENT OF ACCOUNTING AND FINANCE

ACADEMIC YEAR: 2023/2024 SEMESTER: ONE

COURSE CODE: ACC3104

COURSE NAME: MANAGEMENT ACCOUNTING

BAM III

DATE: Friday, 24th May 2024

**Time allowed: 3 Hours (9:30am 12:30pm)**

**INSTRUCTIONS:**

*Read the following before answering the examination questions*

- Do not write anything on this question paper.
- The Examination paper consists of six Questions
- Attempt any **four** questions.
- All questions carry equal marks.
- Your work must be neat and show all relevant workings

## Question One

a) Due to the trade recession, the factory is operating at only 50% of its maximum capacity, resulting in reduced production output and potentially impacting employment levels and overall economic performance in the region.

The details that follow are at your disposal:

i. Costs associated with materials amount to UGX 100,000, wages to UGX 30,000, variable overhead to UGX 20,000, and fixed costs to UGX 50,000 per unit.

ii. Right now, the yearly production output is 12,000 units, which is the amount of goods made in a year.

iii. Even if the company's entire cost is UGX 2,400,000,000, the revenue from sales is just UGX 1,800,000,000.

iv. Although the managing directors are on the fence about accepting the offer, a customer has proposed buying 10,000 units for UGX 17,000 each.

**Required:** Advise whether the company should accept or decline the offer, clearly showing the reason in support of your answer (15 marks)

b) In order to meet immediate demand while keeping costs down, what kind of short-term decision-making is used to identify the optimal production level? (10 marks)

## Question Two

a) Using examples from both financial and managerial accounting, explain how these two types of accounting bring distinct insights into a business. (15 marks)

b) Explain how a management accountant contributes to the management process of a business as a whole. (10 marks)

## Question Three

A company manufactures two products, **Riham Digestive Jar (RDJ)** and **RihamshortcakeJar (RSJ)**. Standard cost data for the products for next year are as follows:

| | Product **RDJ** Per Unit | Product **RSJ** per unit |
|---|---|---|

| | | |
|---|---|---|
| Direct material: | | |
| X at UGX 2 per kg | 24 kg | 30 kg |
| Y at UGX 5 per kg | 10 kg | 8 kg |
| Z at UGX 6 per kg | 5 kg | 10 kg |
| Direct wages: | | |
| Unskilled at UGX 6 per hour | 10 hours | 5 hours |
| Skilled at UGX 10 per hour | 6 hours | 5 hours |
| Budgeted inventories for next year are as follows: | | |
| 1 January | 400 | 800 |
| 31 December | 500 | 1,100 |

Additional information:

i. The data for Materials (kg) is available for both the 1st of January and the 31st of December.

| **Material (kg):** | **X** | **Y** | **Z** |
|---|---|---|---|
| 1 January | 30,000 | 25,000 | 12,000 |
| 31 December | 35,000 | 27,000 | 12,500 |

ii. Estimated sales for the upcoming year: 2,400 units for product RDJ and 3,200 units for product RSJ. Next year.

**Required:** prepare the following budgets for next year:

a) Production budget, in units; (5marks)
b) Material usage budget, in kilos; (5marks)
c) Material purchases budget, in kilos and UGX; (5marks)
d) Direct labour budget, in hours and UGX. (5marks)
e) How can budgeting be advantageous for organizations in managing their financial resources effectively and achieving their long-term strategic goals? (5marks)

**Question Four**

The following describes the direct material specification that Glacier Peak Outfitters adheres to for the fiberfill in its mountain parkas. 0.1 kilogram of fiberfill per parka @ $5.00 per kg. The purchase of 210 kilograms of fiberfill was completed the month prior, and it was used in the production of 2,000 parkas. The entire amount that was spent on the material was $1,029.

**Required:**

a) Compute the following items, to the extent that the information allows it;

   i. Material cost variances (7 marks)

   ii. Labour Cost Variances (6 marks)

b) Give an explanation of the various kinds of variance that are familiar to you. (5 marks)

c) Explain any four advantages as well as any four disadvantages of using Standard costing(8 marks)

**Question Five**

a) With an Illustration, explain the meaning of Break Even Point. **(4 marks)**

b) What assumptions would you consider necessary for Cost Volume Profit Analysis **(5 marks)**

c) You are the financial analyst for a startup company, Bright Gadget, which specializes in producing innovative smart home devices. The company has recently launched a new product, a smart thermostat, and you have been tasked with conducting a comprehensive break-even calculation to assess the financial viability of this venture.

The smart thermostat market is highly competitive, with several established players dominating the industry. Bright Gadget aims to differentiate itself by offering advanced features and superior customer service. However, the company faces significant upfront costs for research and development, manufacturing setup, and marketing campaigns.

The following information is available for the smart thermostat product line: The selling price per unit is **$ 150,** the Variable cost per unit is **$ 70,** and fixed costs for research and development, manufacturing setup, and marketing are **$ 500,000.** The Expected annual sales volume of **10,000 units.**

**Required: As financial analyst, calculate the followings:**

i. The sales required for the product line to reach its break-even point in terms of units sold and total sales revenue. (4 Marks)

ii. The C/S ratio and explain its implications for the company's profitability and cost structure. (4 Marks)

iii. The Margin of safety in units for the smart thermostat product line. (4 Marks)

iv. The target quantity of units that Bright Gadget must sell to achieve a target profit of $ 200,000. (4 Marks)

## Question Six

During a recent brainstorming session at Tech wise Technologies, the R&D team revealed plans for an innovative smart wearable device aimed at revolutionizing health and fitness tracking. As excitement filled the room, discussions naturally turned toward the necessity of balancing technological innovation with financial viability. The Chief Financial Officer (CFO) stressed the importance of adopting a target cost approach to ensure the product's profitability aligns with the company's commitment to delivering value to customers.

**Required:**

a) Imagine you are part of the product development team at Tech wise Technologies, a leading company in the consumer electronics industry. Tech wise is gearing up to launch its latest innovation, a smart wearable device aimed at fitness enthusiasts. As a third-year student pursuing Accounting & Finance, you have been assigned to analyze and describe the steps involved in implementing a target cost for this new product launch. **(10 Marks)**

b) Tech Gen Inc. is a leading technology company known for its innovative consumer electronics. The company is gearing up to launch a new smartphone model targeting the mid-range market segment. As the Operations Manager of Tech Gen, you have been tasked with spearheading the target costing process for the new smartphone and devising strategies to bridge the target cost gap.

Based on market research and financial analysis, the following information is available: The expected selling price of the new smartphone is **$ 400**, the desired profit margin is 20%, the estimated selling and administrative expenses per unit are **$30**, and the estimated manufacturing and distribution expenses per unit are **$120.**

**Required:**

i. Calculate the target cost for the new smartphone model and assess the feasibility of achieving this target cost based on the provided information. (5 Marks)

ii. Compare the calculated target cost with the estimated manufacturing and distribution expenses per unit to determine the target cost gap. Analyze the implications of the target cost gap on the profitability and competitiveness of the new smartphone model. (5 Marks)

iii. Considering the target cost gap, propose strategies to bridge the gap and ensure the new smartphone model meets its target cost. (5 Marks)

**END**