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CITY CAMPUS

MAIN EXAMINATION

JANUARY – APRIL 2015 TRIMESTER

FACULTY OF COMMERCE

MBA PROGRAMME

CAC 610: MANAGERIAL ACCOUNTING

Date: APRIL 2015	Duration: 3 Hours
INSTRUCTIONS: Answer ALL THE FOUR Questions	

Q1. Shifters Haulage (SH) is considering changing some of the vans it uses to transport crates for customers. The new vans come in three sizes; small, medium and large.SH is unsure about which types to buy. The capacity is 100 crates for the small van, 150 for the medium van and 200 for the large van. Demand for crates varies can either be 120 or 190 crates per period with the probability of the higher demand figure being 0.6.The sale price per crate is $10 and the variable cost $4 per crate for all van sizes subject to the fact that if the capacity of the van is greater than the demand for crates in a period then the variable cost will be lower by 10% to allow for the fact that the vans will be partly empty when transporting crates.SH is concerned that if demand for crates exceeds the capacity of the vans then customers will have to be turned away.SH estimates that in this case goodwill of $100 would be charged against profits to allow for lost future sales regardless of the number of customers that are turned away. Depreciation charged would be $200 per period for the small, $ 300 for the medium and $400 for the large van.SH has in the past been very aggressive in its decision-making pressing ahead with rapid growth strategies. However, its managers have recently grown more cautious as the business has become more competitive.

Required:

i Explain the principles behind maximax, maximin and expected value criteria that are sometimes used to make decisions in uncertain environment. **(4 marks)**

ii Prepare a profits table showing the SIX possible profit figures per period. **(9 marks)**

iii Using your profit table from (b) above discuss which type of van SH should buy taking into consideration the possible risk attitudes of the managers. **(6 marks)**

iv Describe THREE methods other than these mentioned in (c) above which businesses can use to analyze and assess the risk that exists in its decision making. **(6 marks)**

Q2. The cost of making component Q, which forms part of product Y is stated below;

	$
Raw materials	4
Direct labor	8
Production overhead	16
	$ 28

Component Q could be bought from an outside supplier for $20.You are required assuming that the fixed production costs will not change to;

i State whether the company should continue making component Q or buy it from outside (support your answer with detail of costs). **(10 marks)**

ii Comment on the principle you have followed in your cost analysis to arrive at your answer. **(7 marks)**

iii What other factors FOUR factors would you consider before accepting /rejecting the component Q to be supplied/not supplied to you from outside. **(8 marks)**

Q3. a) Discuss FIVE aspects that differentiate management accounting from financial accounting giving examples that are relevant. **(10 marks)**

b) Discuss giving relevant examples (in an organization of your choice) how management accounting can be used to formulate long and short term strategic plans of an organization. **(15 marks)**

Q4. a) A company produces and sells two products with the following estimated costs for 2016.

Product	X	Y
Variable costs(f)	0.45	0.6
Per (f of sales		
Fixed costs	F 1212000	F 1,212,000

Total sales revenue is currently generated by the two products and estimated to remain in 2016 in the following proportion.

Sales mix (units)	
Product X	70%
Product Y	30%

Required:

i Calculate the break-even sales venue/units for 2016 on the sales mix assumed above. **(6 marks)**

ii Construct a break-even chart showing the break-even points (units/f) safety margin. **(4 marks)**

b) Repeat (a) (i) and (ii) above assuming the sales mix changes to 50%.

(10 marks)

c) Assume that the fixed costs of f 455,000 are attributed to product X.Calculate the sales revenue required on product X in order to recover the attributable fixed costs and provide a net contribution of f700000 towards general fixed costs and profit. **(5 marks)**