

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

INTRODUCTION TO MANAGEMENT ACCOUNTING – PAPER 9

MONDAY, 17 JUNE 2002

INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours**
2. Attempt all questions in Section **A**, **two** questions in Section **B** and any **three** in Section **C**.
3. Section **A** has **twenty** compulsory multiple choice questions each carrying 1 mark.
4. Section **B** has **three** questions and only **two** questions are to be attempted. Each question carries 25 marks.
5. Section **C** has **three** questions and only **two** questions are to be attempted. Each question carries 15 marks.
6. Please read further instructions on the answer book.

SECTION A

Question 1

- (i) In the processing of meat one of the following combinations represents joint products only.
- (a) Meat and blood.
 - (b) Hides, Skins and Bones.
 - (c) Hides, Skins and Meat.
 - (d) Meat, Skins and Bones.
- (ii) If a business organization suffers persistent losses it may decide to close one of its production lines temporarily. A friend of the Finance Director thinks the following factors should be considered before such a decision is taken:

- (i) The resulting idle capacity.
- (ii) The redundancy payments that may result.
- (iii) Industrial dispute in case the firm cannot pay the redundant staff.
- (iv) Recruitment costs when production resumes in future.
- (v) Possibility of using the idle machines in another department.

Choose the combination that you think should be considered.

- (a) (i), (ii), (iii) and v.
 - (b) (i), (iii), (iv) and (v).
 - (c) (i), (ii), (iii), (iv) and (v).
 - (d) (i) and (v) only.
- (iii) Choose a combination of revenue or expense items that should not appear in a Cash Budget.
- (a) Cash receipts and payments.
 - (b) Depreciation and other national payments.
 - (c) Bank interest charges and cash dividends.
 - (d) Government grants and purchase of non-current assets.
- (iv) A basic standard is best described by:
- (a) A long term standard which remains unchanged over the years.
 - (b) A standard based on current working conditions.
 - (c) A standard which cannot be attained under perfect conditions.
 - (d) A bad standard.

Use the information given below to answer questions (v), (vi) and (vii)

Given : The production and cost structure of a company A Ltd is as follows:-

Production (Units)	Operating Costs (Shs)
9,000	15,000,000
14,000	17,500,000

Assume a linear relationship between production level and variable cost.

- (v) The variable cost per unit for A Ltd is Shs:
- (a) 1,548.
 - (b) 1,667.
 - (c) 500.
 - (d) 1,250.
- (vi) The fixed costs for A Ltd. are Shs:
- (a) 10,000,000.
 - (b) 10,500,000.
 - (c) 2,500,000.
 - (d) 19,000,000.
- (vii) Fixed costs are normally assumed to remain fixed irrespective of the level of activity. Under what circumstances would fixed costs vary?
- (a) When workers productivity improves.
 - (b) When there is a change in capacity.
 - (c) When there exists spare capacity and no change is expected.
 - (d) Fixed costs never change.
- (viii) Which of the following is false about idle time labour variances?
- (a) They are always adverse variances.
 - (b) They arise due to machine breakdowns, poor supervision and other time wasting activities.
 - (c) It could be caused by a favourable material price variance.
 - (d) They are sometimes favourable variances if expected idle time is greater than actual idle time.
- (ix) Under activity based costing, overheads are attributed to cost units on the basis of:
- (a) Volume of units produced.
 - (b) Cost drivers.
 - (c) Standard costs.
 - (d) Marginal costs.

(x) Absorption costing is sometimes called:

- (a) Normal costing.
- (b) Standard costing.
- (c) Marginal costing.
- (d) Activity Based Costing.

(xi) Process 1 in the manufacture of 'designer watches' has the following characteristics:

Production cost	Shs. 100,000.
Input materials	10,000 Kg.
Normal loss	10% of input.
Scrap costs	Shs 10 per kg.
Actual output	8,000 kg.

The cost per unit output is:

- (a) Shs 12.20.
- (b) Shs 10.
- (c) Shs 20.
- (d) Shs 9.50.

(xii) Given the following cost items for Skylimit Ltd:

	Shs
(i) Interview costs	200,000
(ii) Selection costs	100,000
(iii) External training costs	300,000
(iv) Increased scrap	50,000
(v) Rent for office	40,000

Calculate the cost of labour turnover from the above figures.

- (a) Shs 600,000.
- (b) Shs 300,000.
- (c) Shs 690,000.
- (d) Shs 650,000.

(xiii) A member of your discussion group thinks that the characteristics of just in time systems include:

- (i) A move towards zero inventory.
- (ii) Elimination of non-value added activities.
- (iii) An emphasis on perfect quality (zero defects).
- (iv) Short set ups.
- (v) Continuous improvement.

Choose the combination that best fits the characteristics of just in time (JIT) systems.

- (a) (i), (ii), and (iii) only.
- (b) (i), (ii), and (v) only.
- (c) (i), (ii), (iii), (iv) and (v)
- (d) (ii), (iii) and (v) only.

(xiv) The process of overhead cost apportionment is carried out so that:-

- (a) Costs may be controlled.
- (b) Cost units accumulate overheads as they pass through cost centres.
- (c) Whole items of cost can be charged to cost centres.
- (d) Common costs are shared among cost centres.

(xv) Over-absorbed overheads occur when:

- (a) Absorbed overheads exceed actual overheads.
- (b) Absorbed overheads exceed budgeted overheads.
- (c) Actual overheads exceed the absorbed overheads.
- (d) Budgeted overheads exceed absorbed overheads.

(xvi) When comparing the performance of two factories, one of which is owned and the other rented, the inclusion of rent as an expense in the profit statement of the factory owned is known as the inclusion of:

- (a) A relevant cost.
- (b) A normal cost.
- (c) A notional cost.
- (d) A controllable cost.

(xvii) Which of the following are characteristics of service costing?

- (i) High levels of indirect costs as a proportion of total cost.
 - (ii) Use of equivalent units.
 - (iii) Aggregation of cost units.
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- (a) (i) only.
 - (b) (i) and (ii).
 - (c) (ii) only.
 - (d) (ii) and (iii).

- (xviii) One of the four alternatives below best describes a principal budget factor.
- (a) A factor, at any given time, which effectively limits the activities of a firm.
 - (b) An item of expenditure on which the highest amount is to be spent.
 - (c) An item that generates highest amount of income.
 - (d) A principal item in the budget.
- (xix) Which of the following best describes the components of a master budget?
- (i) Budgeted income statement.
 - (ii) Functional Budgets.
 - (iii) Budgeted balance sheet.
 - (iv) Variance report.
- (a) (i) and (ii) only
 - (b) (i), (ii) and (iii).
 - (c) (ii) and (iii).
 - (d) (i) and (iii).
- (xx) Given the following cost structure for Enron Kawempe Ltd:

	Shs
Selling price per unit	10,000
Direct material cost per unit	2,000
Direct Labour cost per unit	1,500
Direct expense per unit	500
Fixed overhead cost	160,000

Calculate the break even point in units.

- (a) 20.16
- (b) 10.25
- (c) 26.7
- (d) 24.60

SECTION B

Question 2

Kampala Batteries Ltd., produces 2 types of Batteries: size “A” and size “B”. The unit costs for a period were as follows:

	Size ‘A’ <u>Batteries</u> Shs/unit	Size ‘B’ <u>Batteries</u> Shs/unit
Direct materials	80,000	15,000
Direct labour	90,000	100,000
Variable production overheads	45,000	60,000
Fixed production overheads	70,000	70,000
Variable other overheads	10,000	13,000
Fixed other overheads	30,000	30,000

Production and sales of the two products for the period were:

	Size ‘A’ <u>Batteries</u> (Units)	Size ‘B’ <u>Batteries</u> (Units)
Production	170,000	65,000
Sales	153,000	71,500

Production was at normal levels. Unit costs of opening inventories were the same as those for the period listed above.

Required:

- (a) State with reasons, whether either absorption costing or marginal costing would show a higher company profit for the period.

Calculate the difference in profit between the two methods.

(5 marks)

- (b) Calculate the Breakeven Sales Revenue for the period based on the above mix of sales. The selling prices of size ‘A’ batteries and size ‘B’ batteries were Shs. 370,000 and Shs. 450,000 per unit respectively.

(11 marks)

- (c) Briefly explain what you understand by the term margin of safety. What purpose does it serve?

(5 marks)

- (d) Outline the limitations of breakeven analysis

(4 marks)

(Total 25 marks)

Question 3

(a) Write short notes on:

- | | |
|---|------------------|
| (i) Zero based budgeting (ZBB). | (4 marks) |
| (ii) Role of a budget committee in budgeting. | (4 marks) |
| (iii) Rolling Budget. | (4 marks) |
| (iv) Budgetary slack. | (3 marks) |

(b) A company has a cash balance of Shs. 2,568,000 at the beginning of September 2002. You are required to prepare a cash budget for October, November and December 2002, having regard to the following information:

- (i) Creditors give one month credit.
- (ii) Salaries are paid in the month in which they accrue.
- (iii) Fixed costs are paid one month in arrears and include a charge for depreciation of Shs. 5,000,000 per month.
- (iv) Credit sales are settled as follows:
 - 40% in the month of sale.
 - 45% one month after sale.
 - 12% two months after sale.
 - The balance represents bad debts.

Month	Cash Sales Shs '000	Credit Sales Shs '000	Purchases Shs '000	Salaries Shs '000	Fixed Overheads Shs '000
August		58,000	50,400	3,200	10,000
September		75,200	56,800	3,200	10,000
October	25,000	70,000	60,000	3,800	10,000
November	23,000	82,500	68,000	3,800	13,000
December	26,000	90,000	75,500	4,000	13,000

(10 marks)
(Total 20 marks)

Question 4

- (a) Describe the features of continuous stock taking and perpetual inventory system. **(6 marks)**
- (b) A retailer who sells a large variety of products in his chain of stores has the following information relating to a popular product:

Maximum daily sales	1,500 units.
Average daily sales	1,200 units.
Maximum lead time	10 days.
Average lead time	8 days.
Economic order quantity	2,900 units.

The re-order level is established to ensure that no stock outs occur.

Required:

- Calculate the average stock holding (in units) **(5 marks)**
- (c) Give three advantages and three disadvantages of maintaining high stocks. **(6 marks)**
- (d) Explain the causes of high labour turnover and the costs of labour turnover **(8 marks)**
- (Total 25 marks)**

SECTION C

Question 5

Uganda Brewers Ltd is a beer brewing company located in Kawempe. It has a production line that produces 3 products:- Kings, Queens and Princes. During a certain period in which the process costs are expected to be Shs. 200,000,000, the following outputs are expected:

Product	Output (crates)	Selling price per crate (Shs)
Kings	8,000	5,000
Queens	20,000	5,000
Princes	25,000	10,000

Required:

- (a) (i) Calculate the apportionment of joint costs using the physical measurement method. **(3 marks)**
- (ii) Calculate the apportionment using the relative sales value apportionment method. **(3 marks)**
- (iii) Why might the sales value method be considered the fairer method of the two? **(3 marks)**
- (b) Distinguish between the cost accounting treatment of joint products and of by-products. **(6 marks)**
- (Total 15 marks)**

Question 6

Shoppers Right (U) Ltd produces and sells a type of sofa set called 'Executive'. The company operates a standard marginal costing system. Standard costs relating to the Executive sofa are as follows:

Standard Cost Card

Cost Item	Amount (Shs)
Direct materials - 10kg at Shs. 15,000 per kg.	150,000
Direct labour - 5 hours at Shs. 4,500 per hour	22,500
Variable production overheads - 5 hours at Shs 2,000 per hour	<u>10,000</u>
Standard cost (marginal)	182,500
Standard contribution	<u>17,500</u>
Standard selling price	<u>200,000</u>

- Budgeted production and sales were 1,000 units.
- During March 2002, the actual units produced were 1,500 units. They were sold for Shs 330 million.
- Actual material used were 11,000kg costing Shs. 144,000,000.
- Actual hours worked were 7,200 hours costing Shs. 48,360,000.
- Actual variable production overhead costs were Shs. 16,800,000.
- Actual fixed production overhead costs were Shs. 30,000,000 though only Shs. 25,000,000 had been budgeted for.

There were no opening or closing inventories of raw materials.

Required:

- (a) Calculate all the variances. **(10 marks)**
- (b) List the factors that should be considered before variances are investigated. **(5 marks)**
- (Total 15 marks)**

Question 7

- (a) Briefly describe the major differences between financial accounting, and cost and management accounting.

(5 marks)

- (b) (i) Distinguish between normal loss and abnormal gain.
(ii) How are normal losses, abnormal losses and abnormal gains treated in process accounts.

(5 marks)

- (c) Describe ways in which overtime wages of direct workers may be treated in a job costing system.

(5 marks)

(Total 15 marks)