

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

INTRODUCTION TO MANAGEMENT ACCOUNTING – PAPER 9

MONDAY, 12 DECEMBER 2005

INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours**
2. Attempt all questions in Section **A**, **two** questions in Section **B** and any **two** 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

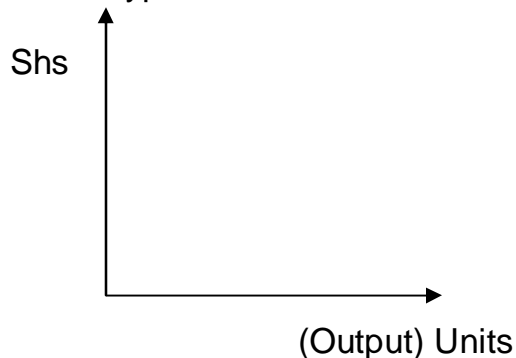
Question 1

- (i) A direct cost is a cost which:
 - (a) is incurred as a direct consequence of a decision.
 - (b) can be economically identified with the item being costed.
 - (c) cannot be economically identified with the item being costed.
 - (d) is immediately controllable.
- (ii) What type of record/document is prepared to formally authorize issue of materials from the store?
 - (a) Goods Received Note.
 - (b) Stores Ledger Card.
 - (c) Stores Requisition Note.
 - (d) Delivery Note.
- (iii) A Management Accountant provides information that is expected to assist managers in undertaking the following activities except:
 - (a) Planning.
 - (b) Control.
 - (c) Decision making.
 - (d) Assessing of taxes.
- (iv) Which of the following would be the most appropriate basis for apportioning machinery insurance costs to cost centres within a factory?
 - (a) The number of machines in each cost centre.
 - (b) The floor area occupied by machinery in each cost centre.
 - (c) The value of the machinery in each cost centre.
 - (d) The operating hours of the machinery in each cost centre.
- (v) A company needs to produce 3,400 litres of chemical Y. There is a normal loss of 10% of the material input into the process. During a given period the company did produce 3,400 litres of good production although there was an abnormal loss of 5% of the material input into the process. How many litres of materials were input during this period?
 - (a) 3570 litres.
 - (b) 3740 litres.
 - (c) 3910 litres.
 - (d) 4000 litres.

(vi) Standard costing provides the following:

- (i) Targets and measures of performance.
- (ii) Information for budgeting.
- (iii) Simplification of stock control systems.
- (iv) Actual future costs.
- (a) (i), (ii), and (iii).
- (b) (ii), (iii) and (iv).
- (c) (i), (iii) and (iv).
- (d) (i), (ii) and (iv).

(vii) Which type of costs does the following graph represent?



- (a) Fixed cost
- (b) Variable cost
- (c) Semi variable cost
- (d) Stepped cost

(viii) Which of the following statements is correct?

- (a) Idle time cannot be controlled because it is always due to external factors.
- (b) Idle time is always controllable because it is due to internal factors.
- (c) Idle time is always due to inefficient production staff.
- (d) Idle time is not always the fault of production staff.

The following information relates to questions (ix) – (xii):

Samona Ltd. produces and sells a single product Samona herbal jelly. The standard cost for one unit being as follows;

	Shs.
Direct material A 10kg at 20/= per kg	2000
Direct material B 5 litres at 6/= per litre	30
Direct wages 5 hrs at 6/= per hour	30
Fixed production overhead	50
	310

The fixed cost is based on an expected monthly output of 900 units. Fixed production overhead is absorbed on the basis of direct labour hours. Actual results for the period are:

Production	800 Units	Shs.
Material A	7800 kg used costing	159,900
Material B	4,200 hours worked for fixed production overhead	47,000

- (ix) What is the price variance of material A?
- (a) 3900 A.
 - (b) 3900 F.
 - (c) 2150 F.
 - (d) 2000 A.
- (x) What is the usage variance of material B?
- (a) 4000 F.
 - (b) 4000 A.
 - (c) 1800 A.
 - (d) 1800 F.
- (xi) What is the labour rate variance?
- (a) 24,150 A.
 - (b) 126,000 F.
 - (c) 1,050 F.
 - (d) 2,850 A.
- (xii) What is the fixed overhead expenditure variance?
- (a) 2000 A
 - (b) 2000 F
 - (c) 5000 A
 - (d) 3000 A
- (xiii) Which of the following is not a result of stock outs?
- (a) Labour frustration over stoppages.
 - (b) Interest on stock head.
 - (c) Extra costs of urgent small quantity replenishment orders.
 - (d) Loss of customer goodwill.
- (xiv) The process of focusing on quality in the management of all resources in an organization is called:
- (a) Just in Time production method.
 - (b) Advanced manufacturing technology.
 - (c) Total quality management.
 - (d) Continuous improvement.

- (xv) Which of the following statements is false?
- (a) Management accounts detail the performance of an organization over a defined period and state of affairs at the end of that period.
 - (b) There is no legal requirement to produce management accounts.
 - (c) The format of management accounts is entirely at managements discretion.
 - (d) Management accounts are both a historical record and a future planning tool.
- (xvi) Which of the following combinations 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).
 - (b) (i), (ii) and (iii).
 - (c) (ii) and (iii).
 - (d) (i) and (iii).

Use the following information to answer questions (xvii) – (ix):

The data below related to Sonella Ltd. For the year ended 30 June 2005:

Number of units sold	10,000.	
	Shs. per unit	Total (Shs '000')
Sales	30	300
Variable costs	(18)	(180)
	12	120
Fixed costs		(24)
Profit		96

- (xvii) Calculate the Breakeven point in value terms:
- (a) Shs. 30,000.
 - (b) Shs. 60,000.
 - (c) Shs. 10,000.
 - (d) Shs. 40,000.
- (xviii) Calculate the breakeven point in units.
- (a) 1,000.
 - (b) 4,000.
 - (c) 2,000.
 - (d) 2,500.

- (xix) Calculate the margin of safety in units.
- (a) 8,000.
 - (b) 6,000.
 - (c) 7,000.
 - (d) 10,000.
- (xx) The system which determines what should be the cost in advance of production is called:
- (a) Activity based costing.
 - (b) Standard costing system.
 - (c) Basic standard system.
 - (d) Post costing system.

SECTION B

Question 2

- (a) Describe the role of a management accountant in a manufacturing organization. **(8 marks)**
- (b) Olisia Enterprises is a manufacturing company. The budgeted factory overheads for next year ending 31 December 2006 have already been apportioned as shown below:

Production Departments			Service Departments		
	Total Shs. million	Cutting Shs. million	Assembly Shs. million	Stores Shs. million	Maintenance Shs. million
Apportioned Overheads	340,000	210,000	80,000	22,000	28,000

The following information is also relevant:

	Cutting Department	Assembly Department	Stores	Maintenance
Material requisitions	140	60	-	20
Maintenance hours	210	90		
Machine hours	8,750	1,750		
Labour hours	7,000	19,000		

Required:

- (i) Re-apportion the service departments' overheads using an appropriate basis in each case. **(7 marks)**
- (ii) Calculate overhead absorption rates for the production departments based on the provided information. **(4 marks)**

(c) Distinguish between:

- (i) Avoidable and unavoidable costs.
- (ii) Cost centre and cost unit.
- (iii) Product costs and period costs.

(6 marks)
(Total 25 marks)

Question 3

(a) Give four reasons why it is necessary for a manufacturing company to control stock at all levels.

(4 marks)

(b) Mande Auto Parts is a distributor of bicycles. At 1 January the stock in hand was 200 bicycles which had a value of Shs. 16,800,000. Transactions for 6 months to 30 June were as follows:

Date	Purchases	Cost/Unit (Shs.)
15 January	200	92,000
4 February	500	98,800
30 April	1000	105,000

Date	Sales	Unit sales prices (Shs)
10 March	500	132,000
5 May	700	140,000
31 December	500	150,000

(i) Use LIFO method of stock valuation to show the stores ledger records including the closing stock valuation.

(10 marks)

(ii) Of FIFO and LIFO which method is the best measure of stock valuation and why.

(2 marks)

(c) Distinguish between Labour cost accounting and payroll accounting.

(4 marks)

(d) Kitunzi an employee of Mavani Group is guaranteed a wage of Shs. 200,000= per month and he is paid Shs. 100 per unit for the first 100 units. A premium of Shs 20 is paid for each extra unit produced above 100 units. Calculate his monthly pay wage when he produces:

- (i) 60 units.
- (ii) 100 units.

(5 marks)
(Total 25 marks)

Question 4

- (a) Stat three problems encountered while accounting for contract costs. (3 marks)

- (b) What are the four entries necessary while accounting for materials in contracts? (4 marks)

Tumpoco Ltd. operates a manufacturing process and during the month of November 2005 the following processing took place:

Opening stock	Nil	Closing stock	Nil
Units introduced	1000 units	Output	900 units
Costs incurred	Shs. 4,500,000	Loss	100 units

Required:

Determine the cost of output in the following circumstances and draw the process account in each case:

- (i) Expected loss is 10% of input.
- (ii) There is no expected loss so that the entire loss of 100 units was unexpected. (10 marks)
- (iii) Define the following terms as applied to process costing:
- By product
 - Split off point
- (2 marks)
- (d) State the advantages of using spreadsheets in management accounting in an organization. (6 marks)

(Total 25 marks)

SECTION C**Question 5**

- (a) Distinguish between a budget and a standard. (6 marks)

- (b) Write short notes on each of the following:

- (i) Zero based budgeting (ZBB).
- (ii) Role of the budget committee.
- (iii) Activity based costing.

(9 marks)
(Total 15 marks)

Question 6

- (a) State any four assumptions of cost-volume-profit (CVP) analysis.
- (b) One division of Chana Motors is currently negotiating with another supplier in regard to outsourcing component a that it manufactures. The division currently makes 10,000 units per annum of component A. The costs currently assigned to the components are as follows:

	Total cost for 10,000 components (Shs)	Unit cost (Shs)
Direct materials	120,000	12
Direct labour	100,000	10
Variable overhead	10,000	1
Fixed manufacturing Overheads	80,000	8
Non-manufacturing overheads	50,000	5
	360,000	36

The above costs are expected to remain constant. The supplier has offered to supply 10,000 components at a price of Shs. 30 per unit. If Chana outsources component A, the direct labour force currently employed will be redundant, no redundancy cost will be incurred, the direct material and variable overheads will be avoided. Fixed manufacturing overheads will be reduced by Shs. 10,000 but the manufacturing costs will remain unchanged.

If the capacity required for component a has no alternative use, advise whether the division should make or buy the component.

(6 marks)

- (c) State the qualitative factors that need to be considered during the decision making process in an organization.

(5 marks)

(Total 15 marks)

Question 7

(a) Briefly describe the following:

- (i) Just in time (JIT) production method.
- (ii) Total quality management (TQM).

(5 marks)

(b) A company manufactures and sells three products which currently have the following trading performance.

	X	Y	Z
Sales (Shs '000')	1,794	3,740	2,950
Production cost of sales	1,242	2,860	1,888
Gross profit	552	880	1,062
Non production overheads	460	770	767
Net profit	92	110	296
Sales units	1,150	2,200	2,360

For each product the units produced were all sold.

Fixed production overheads are absorbed at a rate of Shs. 300 per unit for each product. Non production overheads include certain costs that vary with activity at a rate of 10% of sales value. The remaining Non production overheads are fixed.

Required:

- (i) Prepare a statement in marginal costing format showing the sales, costs, and profit contribution of each product expressed in Shs. per unit.

(6 marks)

- (ii) What are the arguments for using marginal costing system?

(4 marks)

(Total 15 marks)