

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

INTRODUCTION TO MANAGEMENT ACCOUNTING – PAPER 9

MONDAY, 18 JUNE 2007

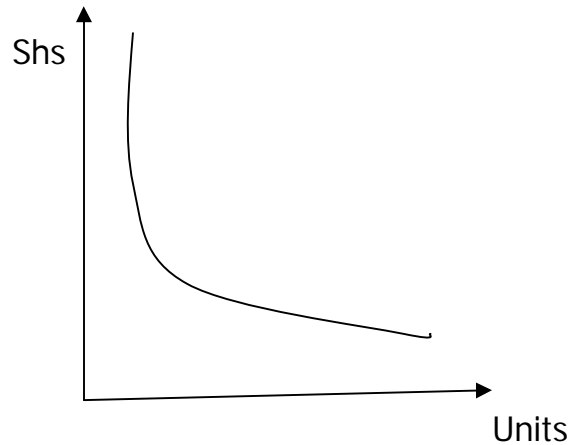
INSTRUCTIONS TO CANDIDATES

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) Which type of cost is represented by the graph below?



- (a) Total fixed cost.
(b) Variable cost.
(c) Semi-variable cost.
(d) Unit fixed cost.
- (ii) What term is used to describe indirect costs?
- (a) Overheads.
(b) Prime costs.
(c) Factory costs.
(d) Variable costs.
- (iii) A Company uses the First in, First out (FIFO) method to price issues of raw material from the store to production and to value its closing inventories.
- Which of the following statements best describes the FIFO method?
- (a) The last materials received will be the first issued to production.
(b) The first materials issued will be priced at the cost of the most recently received materials.
(c) The last materials issued will be those that were most recently received.
(d) The first materials issued will be priced at the cost of the earliest goods still in stock.

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

Use the following extract to answer question (v)

Nana Feeds Ltd. produces a product XX for which the standard labour time is 2 hours per kilo. The budgeted production hours for a given week in May were 820. During that week the production staff were able to produce 380 kilos of the product XX. The staff who worked in that week were paid for 800 hours. During the same week 20 production hours were lost due to shortage of materials.

- (v) What was Nana Feeds Ltd's efficiency ratio?
- (a) 95%.
 - (b) 95.12%.
 - (c) 97.44%.
 - (d) 97.50%.
- (vi) What is a cost unit?
- (a) A measure of work output in a standard hour.
 - (b) A unit of product or service in relation to which costs are ascertained.
 - (c) The cost per unit of water consumed.
 - (d) The cost per hour of operating a machine.
- (vii) Process costing will normally be used where a company undertakes:
- (a) production of a given number of similar products.
 - (b) continuous production.
 - (c) production of a product for an extensive period of time.
 - (d) production relating to a single special order.
- (viii) Which of the following costing methods would be suitable for companies involved in constructing hotels in preparation for CHOGM in Uganda?
- (a) Job costing.
 - (b) Process costing.
 - (c) Contract costing.
 - (d) Batch costing.

- (ix) Which of the following is **FALSE** about normal losses, in process costing?
- (a) are not expected to occur under efficient operating conditions.
 - (b) are inherent in the production process and cannot be eliminated.
 - (c) occur under efficient operating conditions.
 - (d) are absorbed by good production.

Use the following information to answer questions (x) – (xii):

The costs of Tonto Breweries Ltd. follow a pattern represented by $TC = 20,000,000 + 1500Q$ where TC = total costs, Q = bottles of beer produced and sold. The total revenue function is shown as $2000Q$.

- (x) What is the breakeven point?
- (a) 10,000 bottles.
 - (b) 40,000 bottles.
 - (c) 30,000 bottles.
 - (d) 50,000 bottles.
- (xi) How many bottles should be produced to generate revenue of Shs 200,000,000?
- (a) Shs 100,000 bottles.
 - (b) Shs 400,000 bottles.
 - (c) Shs 10,000 bottles.
 - (d) Shs 13,000 bottles.
- (xii) If 200,000 units are produced, the profit or loss will amount to:
- (a) Shs 10,000,000 (loss).
 - (b) Shs 20,000,000 (loss).
 - (c) Shs 20,000,000 (profit).
 - (d) Shs 10,000,000 (profit).
- (xiii) In process costing the split off point is relevant to:
- (a) abnormal losses.
 - (b) normal losses.
 - (c) joint products.
 - (d) abnormal gains.
- (xiv) What is a cost driver?
- (a) A common cost shared by cost centres.
 - (b) The total of all costs.
 - (c) The cost of operating machines.
 - (d) An activity which generates costs.

(xv) In marginal costing, inventory of finished goods is valued at cost.

- (a) direct
- (b) marginal
- (c) breakeven
- (d) variable

(xvi) Cost accounting mainly helps management in:

- (a) earning extra profits.
- (b) fixing prices for products.
- (c) providing information to management for decision making
- (d) preparation of financial statements.

(xvii) The objective of the is to ensure that sufficient cash is available at all times to meet the level of operations in the various departments.

- (a) budget
- (b) cash budget
- (c) master budget
- (d) balance sheet

(xviii) The prime cost variances for a company for its most recent period were:

Direct materials	Shs 700 favourable
Direct labour	Shs 300 favourable

It is also known that the following variances occurred:

Direct materials price variance	Shs 300 favourable
Direct labour rate variance	Shs 200 adverse

Which of the following is correct?

Material usage variance	Labour efficiency variance
(a) Shs 400F	Shs 100A
(b) Shs 1,000A	Shs 500F
(c) Shs 1,000A	Shs 100F
(d) Shs 1,000F	Shs 100A

(xix) Costs which are important for decision making are termed as:

- (a) differential costs.
- (b) past costs.
- (c) relevant costs.
- (d) marginal costs.

- (xx) Which of the following best describes a principal budget factor?
- (a) A factor that 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 the highest amount of income.
 - (d) A principal item in the budget.

SECTION B

Question 2

- (a) Explain the nature of product costs and period costs. (6 marks)
- (b) How do product costs affect the net income of a business firm? (4 marks)
- (c) Distinguish between perpetual inventory and periodic inventory systems. (2 marks)
- (d) State any **four** advantages of perpetual inventory system. (4 marks)
- (e) A company has three production departments and two service departments. The distribution summary of overheads is as follows:

Production departments

	Shs '000'
A	13,600
B	14,700
C	12,800

Service departments

	Shs '000'
X	9,000
Y	3,000

The expenses of service departments are charged on a percentage basis as indicated below:

	A	B	C	X	Y
X department	40%	30%	20%	-	10%
Y department	30%	30%	20%	20%	-

Required:

Apportion the costs of the service departments using repeated distribution method.

(9 marks)
(Total 25 marks)

Question 3

- (a) What do you understand by the term group bonus? (2 marks)
- (b) State the objectives of introducing group bonus schemes in a manufacturing firm. (4 marks)
- (c) Prime Radio, a standard radio company, incurred the following direct costs on job No. 415.

Materials		Shs 60,000,000
Wages:		
Department	A	600 hours @ Shs 3,000 per hour.
	B	400 hours @ Shs 2,000 per hour.
	C	200 hours @ Shs 5,000 per hour.

The overheads of these three departments were estimated as follows:

Department:	A	Shs 15,000,000 for 1,500 labour hours.
	B	Shs 4,000,000 for 200 labour hours.
	C	Shs 12,000,000 for 300 labour hours.

Fixed overheads were estimated at Shs 40,000,000 for 2,000 normal working hours.

Required:

Calculate the cost of job 415 and the price to give a profit of 25% on selling price.

- (12 marks)
- (d) Explain the difference between a main product and a by-product as applied to process costing. (3 marks)
- (e) How can income from the sale of a by-product be shown in the income statement? (4 marks)

(Total 25 marks)

Question 4

- (a) Define the following terms in relation to breakeven analysis:
- (i) P/V ratio.
 - (ii) Margin of safety.
 - (iii) Angle of incidence
- (3 marks)
- (b) Outline the basic assumptions of breakeven analysis. (5 marks)

- (c) Axis Company Ltd. produces several products. The costs and output data for the company for its last financial year were as follows:

	Product			
	Soap	Jelly	Lotion	
Sales mix	40%	35%	25%	
	Shs	Shs	Shs	Shs
Selling price	2,000	2,500	3,000	
Variable cost per unit	1,000	1,500	1,800	
Total fixed cost				15,000,000
Total sales				50,000,000

The company proposes to replace the Lotion with Relaxer. Estimated costs and output data are;

	Soap	Jelly	Axis Relaxer	
Sales mix	50%	30%	20%	
	Shs	Shs	Shs	Shs
Selling price	2,000	2,500	2,800	
Variable cost per unit	1,000	1,500	1,400	
Total fixed costs				15,000,000
Total sales				50,000,000

Required:

Analyse the proposed change and advise management on which decision to take.

(17 marks)
(Total 25 marks)

SECTION C

Question 5

- (a) Outline the role of a management accountant in a business organization.
(4 marks)
- (b) Define the following types of standards:
- (i) Basic cost standard.
 - (ii) Ideal standard.
 - (iii) Attainable standard.
- (3 marks)**
- (c) (i) Define activity based costing (ABC). **(2 marks)**
(ii) How does ABC differ from absorption costing? **(3 marks)**
(iii) Outline any **three** criticisms of ABC. **(3 marks)**
- (Total 15 marks)**

Question 6

- (a) (i) Define budgetary control. (3 marks)
- (ii) Budgetary control as a management control device suffers from limitations. State **five** such limitations. (5 marks)
- (b) (i) Distinguish between a fixed and flexed budget. (2 marks)
- (ii) State **two** reasons that make flexing a budget complicated. (2 marks)
- (iii) Give **three** potential behavioral implications associated with implementing budgetary control. (3 marks)
- (Total 15 marks)**

Question 7

Ezra Ltd. is engaged in the processing industry. During the month of January 2007, 4,000 units were introduced in process Q. The normal loss was estimated at 5% of the input. At the end of the month, 2,400 units were completed and transferred to process R, 1,350 units were incomplete and 250 units, after passing through the process fully, had to be scrapped in full. Information relating to the incomplete units revealed the following stages of completion:

Material	70% complete
Labour and overhead	60% complete

Further information on process Q is as follows:

Item	Shs '000'
Cost of 4000 units	280,000
Additional direct material	88,600
Direct labour	62,000
Production overhead	30,000

Units scrapped realized Shs 5,000 per unit.

Required:

Prepare the:

- (a) statement of equivalent production. (5 marks)
- (b) statement of cost. (7 marks)
- (c) process Q account. (4 marks)
- (Total 15 marks)**