

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

INTRODUCTION TO MANAGEMENT ACCOUNTING – PAPER 9

MONDAY, 8 DECEMBER 2008

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) Factory overhead includes the following costs **EXCEPT**:

- (a) indirect material.
- (b) indirect labour.
- (c) indirect expenses.
- (d) cost of electricity in a factory that produces a single product.

Use the following information to answer questions (ii) - (iv):

Somax Ltd that deals in the manufacture of baby oils has the following data in regard to the way it manages its raw materials:

Annual demand	4800 cartons
Ordering cost	Shs 48,000
Unit price	Shs 800
Storage cost	2%
Interest rate	10%
Lead time	$\frac{1}{2}$ month

(ii) Calculate the economic order quantity in cartons.

- (a) 2,191.
- (b) 2,400.
- (c) 5,367.
- (d) 5,000.

(iii) Calculate the reorder level in cartons.

- (a) 2,400.
- (b) 200.
- (c) 400.
- (d) 800.

(iv) Rent for business premises should be shared between cost centres according to:

- (a) floor area.
- (b) the number of employees.
- (c) the replacement value of machinery.
- (d) an absorption rate.

- (v) Indirect costs which cannot be identified with a particular cost centre are shared out between cost centres using:
- (a) a method of allocation.
 - (b) a method of apportionment.
 - (c) a recovery rate.
 - (d) an absorption rate.
- (vi) Which of the following costing methods does **NOT** fall under specific order costing?
- (a) Job costing.
 - (b) Batch costing.
 - (c) Process costing.
 - (d) Contract costing.
- (vii) Which of the following is a characteristic of process costing?
- (a) Work in progress inventory is restated in terms of completed units.
 - (b) Costs are accumulated by order.
 - (c) It is used by a company manufacturing on customers orders.
 - (d) Standard costs are not applicable.
- (viii) When two products are produced together in a process, the factor that determines whether the products are joint products or a principal product and a by-product is:
- (a) potential marketability for each product.
 - (b) amount of work expended in the production of each product.
 - (c) relative total sales value.
 - (d) management policy.
- (ix) When comparing profits reported under marginal costing and absorption costing in a period when the level of inventory increases:
- (a) absorption costing profits will be higher and closing inventory valuations lower than those under marginal costing.
 - (b) both absorption costing profits and closing inventory valuations will be higher than those under marginal costing.
 - (c) marginal costing profits will be higher and closing inventory valuations lower than those under absorption costing.
 - (d) marginal costing profits will be lower and closing inventory valuations higher than those under absorption costing.

Use the following data to answer questions (x) – (xi):

A company makes a single product with a unit selling price of Shs 20,000 and a unit variable cost of Shs 12,000. Fixed costs incurred include production costs of Shs 40 million and administrative costs of Shs 20 million.

- (x) Calculate the company's breakeven point in units.
 - (a) 5,000.
 - (b) 2,500.
 - (c) 3,000.
 - (d) 7,500.
- (xi) Calculate the company's contribution to sales ratio.
 - (a) 40%
 - (b) 10%
 - (c) 60%
 - (d) 30%
- (xii) The difference between traditional costing and activity-based costing is that activity-based costing:
 - (a) does not assign the cost of support activities directly to cost objects without any reallocation to production centres.
 - (b) assigns the cost of support activities directly to cost objects without any reallocation to production centres.
 - (c) assigns the cost of support activities indirectly to cost objects by reallocating to production centres.
 - (d) assigns the cost of support activities directly to cost objects by reallocating to production centres.
- (xiii) A cost that cannot be changed by a decision made now or in future is:
 - (a) an indirect cost.
 - (b) an uncontrollable cost.
 - (c) an opportunity cost.
 - (d) a sunk cost.
- (xiv) In the case of limiting factor(s), the decision maker should consider maximizing:
 - (a) sales.
 - (b) contribution.
 - (c) variable costs.
 - (d) fixed costs.

- (xv) The purpose of standard costing is to:
- (a) determine the breakeven production level.
 - (b) control costs.
 - (c) allocate costs with more accuracy.
 - (d) eliminate the need for subjective decisions.
- (xvi) Under a standard costing system, the materials price variance is obtained by multiplying the:
- (a) actual quantity purchased by the difference between actual price and standard price.
 - (b) selling price by the difference between standard quantity purchased and standard quantity used.
 - (c) standard quantity purchased by the difference between actual price and standard price.
 - (d) actual price by the difference between actual quantity purchased and standard quantity used.
- (xvii) An ideal standard is one which:
- (a) can be attained if a standard unit is worked out efficiently.
 - (b) can be attained under the most favourable conditions.
 - (c) is established for use over a short period of time.
 - (d) is established for use over a long period from which a current standard is developed.
- (xviii) A method of costing most likely to be adopted by a company that manufactures paints is:
- (a) batch costing.
 - (b) service costing
 - (c) job costing.
 - (d) process costing.
- (xix) Which of the following statements is **FALSE**?
- (a) Managers must be responsible for producing their own functional budgets.
 - (b) A fixed budget compares actual results with the original budgets.
 - (c) The preparation of a budget is undertaken by the Executive Director.
 - (d) Functional budgets are combined to form a master budget.

- (xx) The following are roles of a management accountant in an organisation **EXCEPT**:
- (a) preparing specialized management reports.
 - (b) generating information at different levels of management.
 - (c) exercises managerial influence.
 - (d) maintaining the petty cash system.

SECTION B

Question 2

- (a) Ranta Ltd owns a Toyota Corona 1998 model which has been in use for the last one year. The following information relates to this car:

	Shs '000'
Cost	12,000
Maintenance (half yearly servicing)	400
Spare parts per 3,000 kms	1,000
Licence per year	700
Insurance per year	400
Petrol (Shs 3,000 per litre)	<u>2,000</u>
	<u>16,500</u>

Required:

Calculate the:

- (i) variable cost. **(2 marks)**
 - (ii) fixed cost. **(3 marks)**
- (b) During the period ending 30 September 2008 Apex Ltd incurred the following costs in the process of manufacturing apple juice.

	Shs '000'
Materials	5,115
Direct labour	3,952
Overheads	3,000

The company introduced 1600 units to the process out of which 1400 units were fully completed and 200 partly completed. The degree of completion of 200 units work in progress was as follows:

Materials	75%
Direct labour	60%
Overheads	50%

Required:

Prepare the:

- (i) statement of equivalent production. (6 marks)
- (ii) statement of cost per unit. (3 marks)
- (iii) statement of total production. (6 marks)
- (iv) process account. (5 marks)

(Total 25 marks)

Question 3

- (a) The following is an extract from the transactions of Kaki Ltd, a company dealing in shoe making, during the month of November 2008:

- Credit purchase of raw materials from Ssesse Industries Ltd Shs 19,900,000.
- Total stores requisition for direct materials issued for the period Shs 12 million.
- Raw materials of Shs 2 million were returned to Ssesse Industries Ltd.
- Total issues for indirect materials for the period Shs 3 million.

Required:

Prepare the relevant control accounts for the transactions above.

(12 marks)

- (b) NAM Ltd a company that deals in manufacture of plastic cups has provided you with the following data for the year ended 30 September 2008.

Production	20,000 cups
Sales	15,000 cups
Production costs:	Shs '000'
Direct materials	2,400
Direct labour	600
Variable overheads	500
Fixed overheads	900
Selling & administration costs:	
• Sales commission	250
• General expenses	160
• Overheads (fixed)	240

The company sells each cup at Shs 300.

Required:

Prepare a profit and loss statement on the basis of:

- (a) absorption costing. (6 marks)
- (b) marginal costing. (7 marks)

(Total 25 marks)

Question 4

- (a) (i) The model of cost-volume-profit analysis is based on a number of assumptions. To what extent are the assumptions valid? **(4 marks)**
- (ii) Define the following terms?
- Margin of safety. **(2 marks)**
 - Angle of incidence. **(2 marks)**
- (b) Avon Cosmetic Company manufactures three products with details below for the just ended financial period.

	Lotion	Vaseline	Relaxer
	Shs '000'	Shs '000'	Shs '000'
Sales	250,000	180,000	150,000
Total costs	<u>200,000</u>	<u>200,000</u>	<u>120,000</u>
Profit/(loss)	50,000	(20,000)	30,000

Total costs comprise 75% variable and 25% fixed. The directors of the company are considering discontinuing the manufacture of vaseline since the product is making a loss of Shs 20 million.

Required:

Advise the management of the company whether to stop the production of vaseline or not.

(12 marks)

- (c) (i) What are joint products? **(2 marks)**
- (ii) Explain any **three** differences between a joint product and a by-product.

(3 marks)**(Total 25 marks)**

SECTION C

Question 5

- (a) “Standard costing is a technique that specializes in providing standard costs that represent a desired measure of performance”.

Required:

Explain any **three** types of standards and the extent to which they could be applied for control purposes.

(6 marks)

- (b) (i) Explain the term variance.

(1 mark)

- (ii) Distinguish between controllable and uncontrollable variances.

(3 marks)

- (c) (i) Outline three applications of activity-based costing (ABC).

(3 marks)

- (ii) Give **two** difficulties usually encountered while applying ABC.

(2 marks)

(Total 15 marks)

Question 6

- (a) (i) Outline any **four** objectives of a budgetary planning and control system.

(4 marks)

- (ii) Explain the weaknesses of an incremental budgeting system.

(5 marks)

- (b) Describe the role of a management accountant in a managerial process.

(6 marks)

(Total 15 marks)

Question 7

- (a) Describe the objectives and basic principles of a materials control system.

(5 marks)

- (b) (i) Identify **two** costs associated with labour retention.

(2 marks)

- (ii) Suggest ways in which labour turnover can be reduced.

(4 marks)

- (c) Explain the nature of product and period costs. How do they affect net income of a business?

(4 marks)

(Total 15 marks)