

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

INTRODUCTION TO MANAGEMENT ACCOUNTING – PAPER 9

MONDAY, 15 JUNE 2009

INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours 15 minutes**.
The first 15 minutes of this examination have been designated for reading time. You may not start to write your answer during this time.
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) The production of sunflower cooking oil has a normal wastage of 10% input. In May 2009, 2500 kg of sunflower were input with an abnormal loss of 100kgs. What quantity of good cooking oil production was achieved?
- (a) 2,000 kg.
 - (b) 2,150 kg.
 - (c) 3,000 kg.
 - (d) 2,500 kg.
- (ii) Which of the following would be classified as prime cost?
- (a) The total of fixed costs.
 - (b) The total of variable costs.
 - (c) The total of direct costs.
 - (d) The total of all production costs.
- (iii) A management accounting system should have the following objectives **EXCEPT** to:
- (a) provide information for planning, control and recalling.
 - (b) provide information for decision making and performance measurement.
 - (c) allocate costs for profit reporting in the last five ears.
 - (d) provide relevant information for controlling the system.
- (iv) Which of the following is **NOT** an assumption of cost-volume-profit (CVP) analysis?
- (a) profits are calculated on an absorption costing basis.
 - (b) there is a single product only.
 - (c) profits are calculated on a variable cost basis.
 - (d) total costs and total revenue are linear in nature.
- (v) The difference in total costs between two alternatives is called:
- (a) opportunity cost.
 - (b) differential cost.
 - (c) period cost.
 - (d) incremental cost.

- (vi) Which of the following statements is **FALSE**?
- (a) Historical costs are useful solely for estimating costs that lie ahead.
 - (b) Management accounting assists financial accounting with regard to the valuation of inventory.
 - (c) Both financial and management accounting information is recorded in the same basic documents.
 - (d) Management accounting provides information for ascertaining the financial position as on a particular date.
- (vii) The term 'sunk costs' refers to:
- (a) semi-variable costs.
 - (b) past costs that are now irrevocable.
 - (c) costs that may be eliminated if there is a change in economic activity.
 - (d) benefits lost from selecting the next best alternative.
- (viii) In payroll accounting, the following deductions are made from gross pay to arrive at the net pay of an individual **EXCEPT**:
- (a) contributions to pension funds.
 - (b) advance payment to the individual.
 - (c) tax payable to revenue authorities.
 - (d) overtime pay for the month.
- (ix) A decision to purchase inputs from an outside supplier instead of making them internally results into closing down of a firm's facilities causing a decline in employee's morale. This type of decision is:
- (a) qualitative.
 - (b) investment.
 - (c) strategic.
 - (d) quantitative.
- (x) Legs Ltd. had opening inventory and purchases of 11,500 kg and closing inventory of 8,500kg. Profits using marginal costing were Shs 7,500,000 and using absorption costing were Shs 6,900,000. What was the fixed overhead absorption rate per kg?
- (a) Shs 250.
 - (b) Shs 300.
 - (c) Shs 200.
 - (d) Shs 150.

- (xi) Under job costing, the basic document to accumulate the cost of each job is the:
- (a) requisition sheet.
 - (b) job order.
 - (c) purchase order.
 - (d) job cost sheet.
- (xii) Selling and administration overheads are absorbed on the basis of:
- (a) percentage on selling price.
 - (b) machine hours.
 - (c) number. of employees.
 - (d) blanket overhead rate.
- (xiii) Which of the following methods can be used to ascertain the cost of tinned meat?
- (a) Process costing.
 - (b) Batching costing
 - (c) Contract costing.
 - (d) Job costing.
- (xiv) Labour turnover is best defined as the:
- (a) number of employees replaced divided by the average number of employees on the payroll.
 - (b) number of employees recruited each year.
 - (c) number of employees recruited divided by the average number of employees on the payroll.
 - (d) degree of mobility of employees from one department to another.
- (xv) Which of the following is true about the activity-based costing (ABC) technique?
- (a) Overheads render a service to cost units.
 - (b) Direct labour hours drive costs.
 - (c) Overheads are caused by activities.
 - (d) Overheads just occur.
- (xvi) In a contract to construct a shopping mall, 1000 tonnes of sand remained unused at the end of the contract. How should this sand be treated in the books of the contractor?
- (a) Ignore the sand completely.
 - (b) Debit the contract account with the cost of the sand.
 - (c) Sell the sand to other contractors and record the sale as income.
 - (d) Credit the contract account with the cost of the sand.

- (xvii) is formed to supervise and take responsibility for the budget setting process:
- (a) A management committee.
 - (b) An audit committee.
 - (c) A board of directors.
 - (d) A budget committee.
- (xviii) Which of the following is **NOT** a basic function of a management accountant?
- (a) Assisting management in performing its functions effectively.
 - (b) Analyzing and interpreting data.
 - (c) Recording all business transactions.
 - (d) Ensuring whether or not resources of the business are being utilized effectively.
- (xix) The difference between fixed and variable costs has a special significance in the preparation of a:
- (a) flexible budget.
 - (b) master budget.
 - (c) budget manual.
 - (d) cash budget.
- (xx) Overhead expenditure variance is the difference between:
- (a) standard overheads and actual overheads.
 - (b) budgeted overheads and actual overheads.
 - (c) recovered overheads and budgeted overheads.
 - (d) budgeted overheads and standard overheads.

SECTION B**Question 2**

- (a) (i) Distinguish between continuous inventory counting and perpetual inventory counting. **(4 marks)**
- (ii) Outline any **five** objectives of materials control. **(5 marks)**
- (b) Esso (U) Ltd. is a bulk distributor of petroleum products in Uganda. A weekly inventory of diesel on hand is taken at the close of each week at one of the outlets in Kampala. The following data was extracted from the books for the first week of May 2009:

	Shs million
Sales	185
General Administration costs	15
Opening inventory: 10,000 litres @ Shs 2,000	20
Purchases:	
1 May 50,000 litres @ Shs 1,800	90
4 May 40,000 litres @ Shs 2,050	82

Closing inventory on 7 May 2009 was 28,000 litres.

Required:

Using FIFO and weighted average methods of valuing inventory, compute the:

- (i) value of inventory on 7 May. **(8 marks)**
- (ii) cost of diesel sold for the week. **(3 marks)**
- (iii) profit/loss for the week. **(5 marks)**
- (Total 25 marks)**

Question 3

- (a) Explain how you would deal with by-products when they are of:
- (i) small value. **(2 marks)**
 - (ii) considerable value. **(2 marks)**
- (b) Walumbe Processors Ltd. produces four products W, X, Y and Z, all of which emerge from the processing of only one raw material "Fene". The following data relates to production during the month of April, 2009:

Joint Product	No. of Units	Selling price per Unit Shs '000'
W	4,000	13
X	10,000	20
Y	18,000	10
Z	8,000	6

Walumbe Processors Ltd. budgets for a profit of 20% of sales value. The other estimated costs are:

	Shs '000'
Carriage inwards	10,000
Direct wages	30,000
Manufacturing overheads	20,000
Administrative overheads	20% of sales value

Required:

- (i) Calculate the maximum price that may be paid for the raw material 'Fene'. **(12 marks)**
- (ii) Prepare a cost statement for each of the products allocating the materials and other costs based on the sales value. **(8 marks)**

(Total 25 marks)

Question 4

- (a) (i) Define the term 'budgetary control'. **(2 marks)**
- (ii) What is the importance of a key factor in budget preparation? **(3 marks)**
- (b) Gendax Ltd., a new business in Namanve started production on 1 March, 2009. The planned sales for the next 9 months are given below:

Month	April	May	June	July	August	Sept.	Oct.	Nov.	Dec
Sales (Units)	1,000	1,200	1,400	1,600	1,800	1,800	1,800	1,600	1,400

The selling price per unit will be a constant Shs 10,000. All sales will be made on one month's credit. Sufficient finished goods inventory for each month's sales shall be available at the end of the previous month. At the end of each month, sufficient raw materials will be available to meet the following month's production.

Purchases of raw materials will be one month's credit. The cost of raw materials is Shs 2,000 per unit of finished product. Direct labour cost (variable with the level of production) is planned to be Shs 1,000 per unit of finished production. Production overheads are planned to be Shs 2 million per month including Shs 100,000 for depreciation.

Non-production overheads are planned to be Shs 8.9 million per month of which Shs 900,000 will be depreciation. Fixed assets worth Shs 500 million will be bought and paid for during March. Gendax Ltd. is expected to raise Shs 3 billion in cash from an initial public offering in March. All payments will take place in the same month as the cost is incurred.

Required:

Draw a cash budget for the 6 months ending on 31 August 2009.

(20 marks)
(Total 25 marks)

SECTION C

Question 5

- (a) (i) Distinguish between financial accounting and management accounting. (2 marks)
- (ii) Explain any **six** limitations of management accounting. (3 marks)
- (b) (i) Identify and briefly explain any **five** methods of costing. (4 marks)
- (ii) Outline any **three** cost reduction techniques. (3 mark)
- (c) (i) What is activity-based costing (ABC)? (1 mark)
- (ii) Enumerate the steps involved in the ABC methodology. (2 marks)
- (Total 15 marks)**

Question 6

- (a) (i) Outline any **five** factors that you would consider when making a 'make or buy' decision. (5 marks)
- (ii) Explain circumstances under which a company may set the selling price below marginal cost. (5 marks)
- (b) Outline any **five** limitations of marginal costing. (5 marks)
- (Total 15 marks)**

Question 7

- (a) (i) Distinguish between current standard and basic standard. (2 marks)
- (ii) Outline the possible causes of materials price variance. What are the remedial measures for these causes? (4 marks)
- (b) (i) Distinguish between under-absorption and over-absorption of overheads. (3 marks)
- (ii) Explain how under/over-absorbed overheads are treated in accounting. (6 marks)
- (Total 15 marks)**