

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

INTRODUCTION TO MANAGEMENT ACCOUNTING – PAPER 9

WEDNESDAY, 30 NOVEMBER 2011

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** are to be attempted. Each question carries 25 marks.
5. Section **C** has **three** questions and only **two** are to be attempted. Each question carries 15 marks.
6. Please read further instructions on the answer book, before attempting any question.

SECTION A

Question 1

- (i) The following are definitions of cost **EXCEPT**:
- (a) a reduction in a firm's equity for which no compensating value has been received.
 - (b) the amount of expenditure incurred on a given item or activity.
 - (c) the value of economic resources used as a result of production.
 - (d) measure of amount of resources used in production of goods or rendering of services.
- (ii)costs are those which can be influenced by management's decision.
- (a) Sunk
 - (b) Conversion
 - (c) Discretionary
 - (d) Imputed
- (iii) Which of the following costing methods would be most suitable in a paint manufacturing industry?
- (a) Job costing.
 - (b) Process costing.
 - (c) Batch costing.
 - (d) Contract costing.
- (iv)is a method of recording stores balances after every transaction to facilitate regular checking.
- (a) Continuous stocktaking
 - (b) Perpetual inventory system
 - (c) Imprest system
 - (d) Coding
- (v) Which of the following statements is **NOT** correct?
- (a) Slow moving materials have a low inventory turnover.
 - (b) When prices are showing a rising tendency, the first in, first out method of pricing material issues results into higher profits.
 - (c) Reorder level is normally fixed between minimum and maximum levels.
 - (d) Bin cards are maintained by the cost accountant.

- (vi) The wastage of labour time which cannot be avoided and is borne by the employer is called:
- (a) idle time.
 - (b) normal idle time.
 - (c) over time.
 - (d) abnormal idle time.
- (vii) Under which of the following payment systems are workers paid according to the time they have worked?
- (a) Differential piece rate.
 - (b) Time rate.
 - (c) Piece rate.
 - (d) Halsey plan.
- (viii) A company absorbs overheads using a machine hour basis. In order to calculate any under or over absorbed overheads, which of the following would be needed in addition to the predetermined machine hour rate?
- (a) Budgeted overheads and actual overheads incurred.
 - (b) Budgeted overheads and actual hours worked.
 - (c) Actual overheads incurred and budgeted hours.
 - (d) Actual overheads incurred and actual hours worked.
- (ix) Allotment of the whole items of overheads to cost centers is known as:
- (a) allocation.
 - (b) apportionment.
 - (c) classification.
 - (d) absorption.
- (x) Which of the following is true about activity-based costing (ABC)?
- (a) An activity is an item for which a separate cost measurement is required.
 - (b) Identifying less number of activities results in more accurate cost.
 - (c) ABC system helps companies to better price their products.
 - (d) Purchasing of large quantity of materials is a cost driver.
- (xi) A document which shows the quantities of materials issued to jobs from stores is a:
- (a) materials requisition note.
 - (b) job cost sheet.
 - (c) production order.
 - (d) materials transfer note.

- (xii) The importance of an escalation clause in contract costing is to:
- (a) certify the work done on a contract.
 - (b) cater for the subcontractor's fees.
 - (c) safeguard against any likely changes in price of materials and labour rates.
 - (d) act as a deterrent for the contractor to leave the contract incomplete.
- (xiii) Which of the following is the cause of normal loss in a manufacturing process?
- (a) Carelessness of workers.
 - (b) Use of defective materials.
 - (c) Machine breakdown.
 - (d) Chemical change.
- (xiv) Which of the following methods of apportionment of joint costs produces the same cost per unit for each product?
- (a) Sales value method.
 - (b) Net realisable value method.
 - (c) Physical unit's method.
 - (d) Average unit cost method.
- (xv) In absorption costing:
- (a) fixed production costs are absorbed into the costs of units produced.
 - (b) fixed costs are treated as period costs.
 - (c) inventory values are lower than those calculated by marginal costs.
 - (d) contribution has to be calculated.
- (xvi) Which of the following does **NOT** describe a break-even point?
- (a) Sales revenue is the same as total costs.
 - (b) No profit is made at this point.
 - (c) A loss is made at this point.
 - (d) Total contribution is equal to total fixed costs.
- (xvii) A standard that remains unchanged for a long period of time is called standard.
- (a) an ideal
 - (b) a basic
 - (c) a current
 - (d) an attainable

- (xviii) The type of budgeting in which every item of expenditure has to be justified before inclusion in the budget is:
- (a) incremental budgeting.
 - (b) zero base budgeting.
 - (c) flexible budgeting.
 - (d) Activity-based budgeting.
- (xix) Which of the following costs are not important in decision making?
- (a) Committed costs.
 - (b) Incremental costs.
 - (c) Marginal costs.
 - (d) Opportunity costs.
- (xx) Which of the following is likely to cause an adverse material usage variance?
- (a) Shortage of material used.
 - (b) Employing unskilled machine operators.
 - (c) Machinery idle time.
 - (d) Limited storage space.

SECTION B:**Question 2**

- (a) A factory uses job costing. The following data were obtained from its books for the year ended 31 December 2010:

	Shs
Direct material	90,000
Direct wages	75,000
Profit	60,900
Selling & distribution overheads	52,000
Factory overheads	45,000
Administration production overheads	42,000

Required:

Prepare a job cost sheet indicating the prime cost, factory cost, production cost, cost of sales and sales value.

(5 marks)

- (b) Suppose that in 2011, the factory in (a) above received an order for a number of jobs. It is estimated that direct materials required will be Shs 120,000 and direct labour will cost Shs 75,000.

The factory intends to earn the same profit margin percentage on sales but selling and distribution overheads are expected to go up by 15%. The factory recovers factory overheads as a percentage of direct wages, administration and production overheads as a percentage of factory cost based on cost rates prevailing in the previous year.

Required:

Determine the costs for these jobs if the factory intends to earn the same rate of profit on sales as in 2010.

(9 marks)

- (c) (i) Distinguish between job costing and contract costing.

(6 marks)

- (ii) What is the significance of the following in construction contracts?
- Escalation clause.
 - Retention money.
 - Architect's certificate.

(5 marks)**(Total 25 marks)**

Question 3

- (a) A one year contract has been offered to your company which will utilize an existing machine that is only suitable for such contract work. The machine cost Shs 25 million five years ago and has been depreciated at Shs 4 million per year on straight line basis and thus has a book value of Shs 5 million. The machine could be sold now for Shs 8 million or for Shs 1 million in one years' time.

Four types of material would be needed for the contract as follows;

Material	Units		Price per unit		
	In stock	Required for contract	Purchase price of stock	Current buying in price	Current resale value
W	1,200	300	1,800	1,500	1,200
X	200	1,100	750	2,800	2,100
Y	3,000	600	500	800	600
Z	1,800	1,200	1,800	2,000	1,900

W and Z are in regular use within the company. X could be sold if not used for the contract and there are no other uses of Y which has been deemed obsolete.

Required:

Identify the relevant costs of the machine and for each material in connection with the contract (Ignore the time value of money).

(13 marks)

- (b) The following information has been made available from records of Maputo Enterprises for the next six months:

	Jan	Feb	Mar	Apr	May	Jun
Budgeted sales (units)	4,000	4,200	4,500	5,000	4,800	4,700
Closing inventory (units)	1,000	1,500	1,300	800	1,200	1,400

Maputo anticipates to sell each unit at Shs 2,000 every month. The company had opening inventory of finished goods amounting to 500 units. It planned to reserve closing inventory of finished goods at the end of the month and are part of the produced units.

Required:

Prepare the:

- (i) sales budget **(4 marks)**
(ii) production budget **(5 marks)**
- (c) Outline essential conditions for successful budgeting.

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

Question 4

- (a) A company that manufactures soap purchased two chemicals A and B. Invoice details were as follows:

	Shs '000'
Chemical A 3,000 kg @ 420 per kg	1,260
Chemical B 5,000 kg @ 380 per kg	1,900
Sales tax (in the ratio of purchase price / kg)	205
Railway freight (apportioned according to weight of chemicals)	<u>100</u>
Total cost	<u>3,465</u>

Shortages of 200 kg in chemical A and 280 kg in chemical B were incurred due to breakages. The manufacturer paid environmental tax of Shs 2,200 for chemical A and Shs 6,312 for B respectively.

Required:

Calculate the issue cost per unit for each type of chemical that you would suggest for issue of materials from stores assuming a provision of 5% is made towards further deterioration.

(15 marks)

- (b) Wilcox Ltd uses process costing to attach cost to its products. At the end of October 2011, process A had no work-in-progress. However during the month, 2,000 units of material were issued at a cost Shs 18 million, labour and overheads total was Shs 9 million and Shs 6.6 million respectively. On 31 October 2011, 1,500 units were completed and transferred to the next process. Work-in-progress was completed as follows; Materials 100%, Labour 60% and overheads 30%.

Required:

Prepare:

- | | | |
|-------|---------------------------------------|----------------|
| (i) | A statement of equivalent production. | 3 marks |
| (ii) | A statement of cost. | 3 marks |
| (iii) | Statement of evaluation. | 2 marks |
| (iv) | Process A account. | 2 marks |

(Total 25 marks)

SECTION C

Question 5

- (a) Explain the term 'cost behaviour'. (1 mark)
 - (b) Distinguish between:
 - (i) controllable and uncontrollable costs. (2 marks)
 - (ii) cost centre and cost unit. (2 marks)
 - (c) Contrast the use of:
 - (i) blanket as opposed to departmental overhead absorption rates. (4 marks)
 - (ii) predetermined overhead absorption rate as opposed to rates calculated on actual activity and expenditure. (4 marks)
 - (d) Explain the following in relation to activity-based costing:
 - (i) cost driver.
 - (ii) cost pool. (2 marks)
- (Total 15 marks)**

Question 6

- (a) (i) Assess the benefits that may be achieved by an organization adopting zero base approach in its budgeting process. (4 marks)
 - (ii) Explain the possible results of absence of motivation when setting budgets. (4 marks)
 - (b) What are the advantages of using the first in, first out method of pricing material issues? (3 marks)
 - (c) (i) Define the term 'labour turnover'. (1 mark)
 - (ii) What are the effects of a high labour turnover? (3 marks)
- (Total 15 marks)**

Question 7

- (a) Outline the major assumptions of C-V-P analysis. (4 marks)
 - (b) What could be the likely causes of material price variance? (5 marks)
 - (c) Identify qualitative factors that have to be considered in a decision to introduce an extra working shift in an organization. (3 marks)
 - (d) State the main objectives of cost accounting. (3 marks)
- (Total 15 marks)**