

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL THREE

#### INTRODUCTION TO MANAGEMENT ACCOUNTING – PAPER 9

**WEDNESDAY, 20 JUNE 2012**

#### 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. This examination contains Sections **A**, **B** and **C**.
3. Section **A** is bound separately from Sections **B** and **C**.
4. Attempt all the 20 multiple choice questions in Section **A**. Each question carries 1 mark.
5. Attempt **two** of the three questions in Section **B**. Each question carries 25 marks.
6. Attempt **two** of the three questions in Section **C**. Each question carries 15 marks.
7. Write your answer to each question in a separate answer booklet.
8. Please, read further instructions on the answer booklet, before attempting any question.

**SECTION B**

Attempt two of the three questions in this section.

**Question 2**

- (a) Tunic Ltd prepared its departmental product cost estimates for the year ending 31 December 2011. The company has three production departments: A, B and C, and two service departments: S1 and S2. Costs extracted are as follows:

Service Departments:	Shs '000'
S1	30,000
S2	95,000
Production Departments:	
A	64,000
B	58,000
C	48,000

Expenses of the services departments are apportioned as follows:

	Production Departments			Service departments	
	A	B	C	S1	S2
S1	10%	30%	40%	-	20%
S2	30%	25%	35%	10%	-

**Required:**

Prepare a statement showing the redistribution of service department cost to production departments using the simultaneous equation method.

**(13 marks)**

- (b) Tubo Ltd deals in the distribution of tyres and had the following details for its operations during the year ended 31 December 2011:

Average monthly market demand	2,000 tyres
Ordering costs	Shs 100,000 per order
Inventory carrying costs	20% per annum
Cost of tyres	Shs 5,000 per tyre
Normal usage	100 tyres per week
Minimum usage	50 tyres per week
Maximum usage	200 tyres per week
Lead time to supply	6 - 8 weeks

**Required:**

Compute the:

- (i) economic order quantity. (3 marks)
- (ii) re-order level. (3 marks)
- (iii) maximum inventory level. (3 marks)
- (iv) minimum inventory level. (3 marks)

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

A company produces and sells two products: X and Y, and uses absorption costing system. Fixed production overheads are absorbed at a rate of Shs 90,000 per machine hour based on normal production levels.

Estimates for the following period include:

	Product X	Product Y
Sales (units)	15,800	26,300
Selling price/unit (Shs)	11,500	24,000
Production (units)	15,300	26,400
Total variable production costs (Shs)	76,500,000	324,472,000
Machine hours	1020	2200
Opening inventory (units)	1,940	1,870

Fixed production overheads are estimated at Shs 283,500,000 for the following period and selling and administration overheads at Shs 95,800,000.

**Required:**

- (a) Determine the net profit for the following period based on the above estimates. (15 marks)
- (b) Assuming the company changes to marginal costing system, prepare a statement showing its expected performance. (9 marks)
- (c) State the reason for the difference in the two profit figures obtained in (a) and (b) above. (1 mark)

**(Total 25 marks)**

**Question 4**

- (a) DEF Ltd's opening cash balance on 1 January 2012 was expected to be Shs 100 million. The company's budgeted credit sales for November 2011 – March 2012 were as follows:

	Shs '000'
November	60,000
December	100,000
January	90,000
February	80,000
March	50,000

The company's debtors settle their debts according to the following pattern:

- 50% within the month of sale
- 30% one month after sale
- 20% two months after sale

The following purchases were made:

	Shs '000'
December	100,000
January	90,000
February	60,000
March	80,000

All the purchases were on credit and past experience shows that 80% are settled in the month of purchase and the balance one month after. Wages were Shs 30 million per month, while overheads were Shs 60 million per month (including Shs 50 million depreciation) settled monthly. Taxation of Shs 70 million was to be settled in February 2012 and the company was due to receive settlement of an insurance claim of Shs 90 million in March 2012.

**Required:**

Prepare a cash budget for the months of January, February and March 2012.

**(10 marks)**

- (b) AKL Projects Ltd deals in the construction of houses for its clients. During the year ended 31 December 2007, the company got an order from Kato Enterprises for a house to be constructed at a contract price of Shs 45,000,000. In February 2008, when the company had done 40% of the work it got information that Kato Enterprises had gone into liquidation and

there was no prospect that any more money would be obtained from winding up of the company.

AKL Projects Ltd had already spent Shs 8,000,000 on the house and had received progress payments of Shs 10,000,000 from Kato Enterprises prior to liquidation. Kemba has, however, offered to purchase the same house at Shs 28,000,000 once it is completed.

Costs needed to complete the house are as follows:

- Materials bought at Shs 6,000,000. The raw materials have no other use and if the house is not completed they will be sold as scrap at Shs 2,000,000. Additional materials needed cost Shs 4,000,000.
- More workers will be used at a total cost of Shs 2,000,000. The wage bill of the old employees will increase by Shs 2,500,000. Labour is in short supply and if the house is not completed the employees can be used on another job and earn Shs 3,000,000 and incur costs of Shs 1,200,000.
- If work is not completed AKL Projects Ltd will pay subcontract costs of Shs 1,100,000 otherwise the fees will amount to Shs 3,300,000.

**Required:**

Assess whether the new customer's offer (Kato) should be accepted. State reasons for inclusion or exclusion of some costs in your assessment.

**(15 marks)**

**(Total 25 marks)**

## SECTION C

*Attempt two of the three questions in this section.*

### Question 5

- (a) Discuss the factors which influence the behaviour of costs in response to an organisation's level of activity. (4 marks)
- (b) Distinguish between:
- (i) avoidable and unavoidable costs. (2 marks)
  - (ii) a cost centre and a cost unit. (2 marks)
- (c) (i) What are the problems of costing for a construction industry? (2 marks)
- (ii) What is abnormal gain? How is it treated in cost accounts? (2 marks)
- (iii) What are the possible causes of abnormal losses? (3 marks)
- (Total 15 marks)**

### Question 6

- (a) (i) What are the possible advantages for the control function of an organisation having a standard costing system? (5 marks)
- (ii) What problems are likely to occur when standards are being set? (5 marks)
- (b) (i) Distinguish between allocation and apportionment of overheads (3 marks)
- (ii) Define the term 'blanket overhead rate' and identify a situation in which it is used. (2 marks)
- (Total 15 marks)**

### Question 7

- (a) (i) Describe the main features of activity-based costing (ABC). (3 marks)
- (ii) Explain the following in relation to ABC:
- cost object
  - cost driver
  - cost pool
- (3 marks)**
- (b) Briefly discuss the objectives of cost accounting. (5 marks)
- (c) State qualitative factors important in decision making. (4 marks)
- (Total 15 marks)**