

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

INTRODUCTION TO MANAGEMENT ACCOUNTING – PAPER 9

WEDNESDAY, 28 NOVEMBER 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 on a fresh page in your answer booklet.
8. Please, read further instructions on the answer booklet, before attempting any question.

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SECTION B

Attempt two of the three questions in this section.

Question 2

- (a) (i) Prepare a stores ledger account for the following transactions using first in, first out (FIFO) method of inventory valuation and determine the value of closing inventory and the cost of materials to be charged to production:

January	1	Received 1,000 units at Shs 100 each.
	10	Received 260 units at Shs 105 each.
	20	Issued 700 units.
February	4	Received 400 units at Shs 115 each.
	21	Received 300 units at Shs 125 each.
March	16	Issued 620 units.
	18	Returned 200 units to store by user department being part of issues of 16 March.
April	12	Issued 240 units.
May	10	Received 500 units at Shs 110 each.
	15	A shortage of 10 units was registered being part of items received on 10 May.
	25	Issued 380 units.

(10 marks)

- (ii) Outline the factors that influence the choice of a materials pricing method.

(5 marks)

- (b) In a certain company each employee is expected to work for 49 hours a week and paid at an hourly rate of Shs 20,000. If an employee works for more than 40 hours in a week, the company pays for extra hours at a rate of Shs 15,000 per hour. These workers are engaged in production of rulers and it takes one minute to produce one ruler. In a certain week, Peter produces 3,000 rulers.

Required:

- (i) How much did Peter earn as a bonus?

(4 marks)

- (ii) How much was paid to Peter in total for the whole week?

(2 marks)

- (c) Mention **four** circumstances when it is suitable to use a group bonus scheme in remunerating employees.

(4 marks)

(Total 25 marks)

Question 3

- (a) A company reapportions the costs incurred by its two service cost centers; materials handling and inspection to three production cost centers; machining, finishing and assembly. The following are the overhead costs which have been allocated and apportioned to the cost centers.

Shs

Production cost centres:

Machining 400,000

Finishing 200,000

Assembly 100,000

Service cost centres:

Materials handling 100,000

Inspection 50,000

Technical estimates of the benefits received by each cost centre are as follows:

	Machining	Finishing	Assembly	Material handling	Inspection
Material handling	30%	25%	35%	-	10%
Inspection	20%	30%	45%	5%	

Required:

- (i) Calculate the charge for overhead to each of the three production cost centers including amounts reapportioned from the two service cost centers using repeated distribution method. **(14 marks)**
- (ii) Comment on whether re-apportioning of service cost centre costs is generally worthwhile. **(4 marks)**
- (b) A company operates a manufacturing process which produces two joint products Tang and Bang and a by-product Exe. Manufacturing costs for the period ended May 2012 totalled Shs 272,926,000 in manufacturing the products as given below:

Tang 16,000 kg (selling at Shs 6,100 per kg)

Bang 53,200 kg (selling at Shs 7,500 per kg)

Exe 2,770 kg (selling at Shs 800 per kg)

Required:

Calculate the cost, per kg, of Tang and Bang for the period using market values to apportion costs.

(7 marks)**(Total 25 marks)**

Question 4

Simba Ltd is involved in the manufacture of ladies bags and has availed you the following records for the following months of 2012:

	July	Aug	Sept	Oct	Nov	Dec
Budgeted sales (bags)	4,000	4,200	4,500	5,000	4,800	4,700
Closing inventory (bags)	1,000	1,500	1,300	800	1,200	1,400

Simba Ltd anticipates to sell each bag at Shs 2,000. The company had opening inventory of 500 bags. Simba Ltd plans to reserve the closing inventory of bags at the end of the month as part of the finished bags.

The production manager has availed the following costs of manufacturing a single bag:

	Shs
Raw materials 5 metres each Shs 2,000	10,000
Labour costs 10 hours each Shs 500	5,000
Variable overhead costs 20% of labour costs	<u>1,000</u>
	<u>16,000</u>

Required:

- (a) Prepare:
- (i) a sales budget. (3 marks)
 - (ii) production budget. (6 marks)
 - (iii) raw material utilization budget. (3 marks)
- (b) (i) Explain the essential requirements for successful budgeting. (6 marks)
- (ii) Outline the requirements of a good variance analysis. (5 marks)
- (iii) Why are ideal standards unrealistic? (2 marks)
- (Total 25 marks)**

SECTION C

Attempt two of the three questions in this section.

Question 5

- (a) Outline the essential features of process costing. **(4 marks)**
- (b) Distinguish between absorption costing and marginal costing in regard to:
- (i) inventory valuation.
 - (ii) overhead cost recovery.
 - (iii) financial reporting.
- (6 marks)**
- (c) The use of cost-volume-profit (CVP) analysis as a decision making tool has some shortcomings because of the limitations it presents.

Required:

Outline the limitations of CVP analysis.

(5 marks)
(Total 15 marks)

Question 6

- (a) (i) Outline the ideas on which activity-based costing (ABC) was developed. **(3 marks)**
- (ii) Explain the difficulties that are often encountered when using ABC. **(3 marks)**
- (b) Explain the role of the management accountant in regard to planning and cost control. **(4 marks)**
- (c) "Relevant costs are those future costs that differ between alternatives".

Required:

- (i) Explain the **four** main characteristics of relevant costs. **(4 marks)**
- (ii) Define the 'term incremental cost'.

(1 mark)
(Total 15 marks)

Question 7

- (a) (i) Distinguish between job and batch costing. **(2 marks)**
- (ii) Outline the factors that influence the choice of a costing method to be used in any company. **(4 marks)**
- (b) Identify the special features of a contract. **(4 marks)**
- (c) Discuss the factors which influence the behaviour of costs in response to changes in organizations. **(5 marks)**
- (Total 15 marks)**