

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

INTRODUCTION TO MANAGEMENT ACCOUNTING – PAPER 9

WEDNESDAY, 27 NOVEMBER 2013

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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Question 3

- (a) A company constructs equipment to customer specifications using job costing. The following information relates to the inventory account of one of the components for the month of October 2013:

1	Opening inventory	40 units at Shs 4,500 per unit.
5	Purchases	50 units at Shs 4,540 per unit.
11	Purchases	50 units at Shs 4,520 per unit.
18	Purchases	45 units at Shs 4,600 per unit.

During the month, a total of 138 units were issued to production and two units were damaged and written off.

Required:

- (i) Calculate the value of inventory of the component at the end of October using the last in first out technique. **(3 marks)**
- (ii) State any four limitations of cost-volume-profit analysis. **(4 marks)**
- (iii) Explain the advantages of having centralized storage in an organization. **(4 marks)**

- (b) A company had the following actual and budgeted data for the year ended 30 September 2012:

	Budget	Actual
Production (units)	8,000	9,000
Variable production overhead per unit (Shs)	3,000	3,000
Fixed production overheads (Shs '000')	360,000	432,000
Sales (units)	6,000	8,000

Overheads are absorbed using rate per unit based on budgeted output and expenditure.

Required:

- (i) Calculate the production overhead absorbed during the year. **(5 marks)**
- (ii) Calculate the level of any under or over absorption of overheads. **(3 marks)**
- (iii) Explain the causes of under/ over absorption of overheads. **(4 marks)**

SECTION B

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

Question 2

- (a) JK Ltd manufactures and sells a single product Jumbo as follows:

Selling price per unit Shs 60,000

Direct costs per unit Shs 16,000

Details for the months of October and November 2012 were as follows:

	October	November
Production (units)	750	1,000
Sales (units)	600	1,150
Fixed production overheads (Shs '000')	9,000	9,000

The normal level of activity for both sales and production is 900 units per month. Fixed production overheads are budgeted at Shs 9 million per month and are absorbed on a unit basis.

Required:

Prepare a profit statement for both months using the absorption costing technique.

(9 marks)

- (b) Explain the reasons that have been put forward to support the use of marginal costing in organizations.

(5 marks)

- (c) Explain the meaning of the following in the context of a materials control system:

(i) Continuous inventory counting

(3 marks)

(ii) Perpetual inventory system

(3 marks)

- (d) Identify any **five** principal documents used to collect costs of materials and describe the purpose of each document.

(5 marks)

(Total 25 marks)

- (c) Explain the advantages and disadvantages of using rolling budgets in an organization.

(4 marks)

(Total 25 marks)

SECTION C

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

Question 5

- (a) (i) Differentiate between normal loss and abnormal loss as applied in process costing. (2 marks)
- (ii) Explain the factors that influence the choice of a costing method. (5 marks)
- (b) (i) Define the terms 'relevant' and 'irrelevant' costs in decision making. (2 marks)
- (ii) Explain the roles of a management accountant in an organization. (4 marks)
- (c) Define the following as used in cost-volume-profit analysis:
- (i) Contribution margin.
- (ii) Margin of safety.

(2 marks)

(Total 15 marks)

Question 6

- (a) Define the following standards:
- (i) Basic standard.
- (ii) Ideal standard.
- (iii) Attainable standard. (3 marks)
- (b) Explain any **four** applications of standard costing technique in a real business environment. (4 marks)
- (c) Describe the principles of a good incentive scheme. (5 marks)
- (d) Differentiate between the terms 'cost centre' and 'investment centre'.

(3 marks)

(Total 15 marks)

- (c) Distinguish between allocation and apportionment of overheads.

(2 marks)

(Total 25 marks)

Question 4

- (a) The following information relates to Gelana Ltd for the year ended 31 December 2012:

1. The company's only product GN sells at Shs 40,000 per unit. The variable unit cost is made up of:

	Shs
Materials	20,000
Labour	4,000
Overhead	2,000

2. Fixed costs are Shs 6 million payable at the end of every month.

3. Units produced and sold, on credit are:

	May	June	Jul	Aug	Sept	Oct	Nov	Dec
Sales	1,000	1,200	1,400	1,600	1,800	2,000	2,200	2,600
Production	1,200	1,400	1,600	2,000	2,400	2,600	2,400	2,200

4. Cash sales at a discount of 5% are expected to average 100 units a month

5. Customers settle their accounts by the end of the second month following the sale.

6. Suppliers of materials are paid two months after material is held in production.

7. Wages, paid in the same month they are incurred, are as follows:

	Jul	Aug	Sept	Oct	Nov	Dec
Wages (Shs '000')	6,400	8,000	9,600	10,400	9,600	8,800

8. 70% of the variable overhead is paid in the month of production, the remainder in the following month.

9. Corporation tax of Shs 18 million was expected to be paid in October.

10. The company expected to be overdrawn by Shs 2 million as at 30 June 2012.

Required:

Prepare a cash budget for Gelana Ltd for the second half of the year ended 31 December 2012.

(19 marks)

- (b) Differentiate between the imposed style of budgeting and negotiated style of budgeting.

(2 marks)

Question 7

- (a) Explain the factors that influence the cost accounting system adopted by an organization.

(5 marks)

- (b) Using simple graphs, illustrate the behaviour of the following costs with the level of activity:

- (i) Total variable costs.
- (ii) Semi variable costs.

(4 marks)

- (c) Define the following terms in relation to inventory levels maintained in an organization:

- (i) Reorder level.
- (ii) Minimum inventory level.

(2 marks)

- (d) Describe the features of contract costing.

(4 marks)

(Total 15 marks)