

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL THREE

#### INTRODUCTION TO MANAGEMENT ACCOUNTING – PAPER 9

**THURSDAY, 6 JUNE 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.

**© 2013 Public Accountants Examinations Board**

**SECTION B**

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

**Question 2**

- (a) Venansio Limited has three main departments: crushing, sorting, and assembly. For period 3, the following production overhead budget was prepared for an output level of 120,000 units.

Department	Crushing	Sorting	Assembly
Production overheads (Shs)	6,000,000	4,800,000	3,600,000
Budgeted labour hours	150,000	192,000	200,000

Actual output for period 3, was 135,000 units with the following overhead costs and labour hours for each department:

Department	Crushing	Sorting	Assembly
Production overheads (Shs)	5,586,000	5,640,000	4,620,000
Actual labour hours	147,000	188,000	220,000

**Required:**

- (i) Calculate the predetermined departmental overhead absorption rates for period 3. **(4 marks)**
- (ii) Calculate the under/ over absorption of overheads for each department for period 3. **(9 marks)**
- (b) Pioneer Limited uses a standard absorption cost accounting system. The following details have been extracted from a standard cost card for one of its products:

	Shs
Direct materials	2,000
Direct labour	6,400
Variable overheads	4,200
Fixed overheads	<u>3,600</u>
	<u>16,200</u>

The fixed overhead cost per unit is based on an estimated production of 12,000 units per month. During April 2013, the actual number of units produced was 9,800 and the following variances arose.

	Shs
Direct materials	600,000 favourable
Direct labour	720,000 favourable
Variable overhead	840,000 adverse
Fixed overhead	720,000 adverse

**Required:**

Calculate the actual cost of:

- (i) direct materials.
- (ii) direct labour.
- (iii) variable overhead.
- (iv) fixed overhead.

**(12 marks)**  
**(Total 25 marks)**

**Question 3**

- (a) Petrol Chemical Ltd operates a process costing system and in the period ended May 2013, its process 2 received 80,000 units from the previous process valued at Shs 25,600,000. Conversion costs amounted to Shs 19,344,000 and the value of materials introduced was Shs 22,000,000.

At the end of the period, the closing work-in-progress was 14,000 units, which were 100% complete with respect to materials, and 60% complete in terms of labour and overheads.

**Required:**

- (i) Calculate the number of equivalent units produced. **(3 marks)**
- (ii) Calculate the cost per equivalent unit. **(2 marks)**
- (iii) Prepare the process 2 account for the period. **(8 marks)**
- (b) Explain the accounting treatment of the scrap value of normal loss in process costing. **(2 marks)**

- (c) The following budget data was prepared by the management accountant of Zooha Enterprises Ltd:

	Shs '000
Sales (120,000 units each at Shs 2,400)	288,000
Cost of sales (all variable) 120,000 units each at Shs 1,600	<u>192,000</u>
Contribution	96,000
Fixed cost	<u>40,000</u>
Profit	<u>56,000</u>

**Required:**

- (i) Calculate the break-even point in units.  
(2 marks)
- (ii) Determine the margin of safety in units.  
(2 marks)
- (iii) What would be the level of fixed costs required to maintain the same level of profit if variable costs per unit increased by 5% all other variables remaining constant?

(6marks)

**(Total 25 marks)**

**Question 4**

Baraza International Ltd produces a single product and uses an absorption cost accounting system. For the year ended 31 December 2012, the company budgeted to produce 300,000 units of output at fixed production overhead cost of Shs 120 million. Actual data for the period was 256,000 sales units at a price of Shs 1,400 per unit while production was 280,000 units. A variable production cost of Shs 600 per unit was incurred and the actual total fixed production cost was Shs 117.6 million. The opening inventory comprised of 24,000 units valued at Shs 24 million. The non-fixed production overhead costs were: administration overheads Shs 32 million; and selling and distribution overheads of Shs 16 million.

**Required:**

Prepare a profit statement based on:

- (a) absorption costing principles.  
(15 marks)
- (b) marginal costing principles.

(10 marks)

**(Total 25 marks)**

## SECTION C

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

### Question 5

- (a) Sometimes, the physical inventory balances arrived at through inventory counts do not agree with the book inventory balances.  
Identify any **five** possible causes of discrepancies between the two balances.  
(5 marks)
- (b) A bonus scheme that does not satisfy certain conditions will not operate successfully.  
State any **five** conditions that are necessary for the successful implementation of any bonus scheme.  
(5 marks)
- (c) (i) List any **three** principles of activity-based costing (ABC).  
(3 marks)  
(ii) State any **two** advantages of ABC over absorption costing.  
(2 marks)  
(Total 15 marks)

### Question 6

- (a) Describe the accounting treatment of the following items in cost accounting:  
(i) Under/ over absorption of overheads.  
(ii) Scrap value of normal loss in process costing.  
(iii) Idle time in the production department.  
(iv) Depreciation of delivery trucks.  
(iv) The managing director's salary.  
(5 marks)
- (b) Describe any **five** functions of a budget committee.  
10 marks  
(Total 15 marks)

**Question 7**

(a) Distinguish between the following cost and management accounting concepts:

(i) Fixed and flexible budgets. **(2 marks)**

(ii) Integrated and interlocking cost accounting systems. **(2 marks)**

(iii) Perpetual inventory and continuous inventory counting. **(3 marks)**

(iv) Controllable and uncontrollable costs. **(2 marks)**

(b) In process costing, the quantity of output will be less than the quantity of input.

Outline any **three** possibilities of such differences.

**(3 marks)**

(d) Identify the **three** steps involved in the process of establishing overheads.

**(3 marks)**

**(Total 15 marks)**