

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL THREE

#### INTRODUCTION TO MANAGEMENT ACCOUNTING – PAPER 9

**FRIDAY, 5 JUNE 2015**

#### 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) Explain the cost accounting treatment of normal losses. **(05 marks)**
- (b) Prince Industries Ltd makes low quality plastic water tanks. The data below relates to the company's operations for the year ending 31 March 2015.

	Water tanks (units)	Cost Shs '000'
Beginning work in progress inventory	4,000	
Direct materials (100% complete)		190,000
Conversion costs (70% complete)		60,000
Units started in the period	7,000	
Costs incurred during the period:		
Direct materials		310,000
Conversion costs		440,000
Ending work-in progress inventory	1,000	
Direct materials (100% complete)		
Conversion costs (80% complete)		
Completed and transferred out (good units produced)	9,000	
Normal loss (10% of good units produced)	900	
Abnormal loss	100	

**Required:**

Using the above data, apply the first in, first out (FIFO) valuation method to calculate the following:

- (i) equivalent units of production. **(10 marks)**
- (ii) cost per equivalent unit. **(5 marks)**
- (iii) total cost of production. **(5 marks)**
- (Total 25 marks)**

**Question 3**

- (a) Agritex Ltd has been in the business of procuring goats from S. Africa, Zambia and Nigeria on behalf of the Agricultural Extension Services (AES), in restocking of animals in Kisoro district. Delivery data for the month of February 2015 is as follows:



Country	No. of goats per lot	Reorder quantity	Price per goat	Delivery period (weeks)			Reorder level	Minimum level
		Goats	Shs				Goats	Goats
		'000'	'000'	Min.	Ave.	Max.	'000'	'000'
S. Africa	1,000	900	200	2	2	2	800	
Zambia	400	500	150	4	5	6	500	
Nigeria	600	200	120	4	4	5		200

**Note:** Min. = Minimum  
 Max. = Maximum  
 Ave. = Average

Past experience indicates that weekly deliveries vary from 180 to 230 lots averaging 200 lots.

### Required:

Using the above data, compute the following:

- (i) Minimum stock level of goats from S. Africa. **(4 marks)**
- (ii) Maximum level of goats from Zambia. **(4 marks)**
- (iii) Re order level of goats from Nigeria. **(4 marks)**
- (iv) Average stock level of goats from South Africa. **(4 marks)**
- (b) (i) Discuss briefly how stock losses may arise in stores. **(6 marks)**
- (ii) Explain the accounting treatment of stock losses. **(3 marks)**

**(Total 25 marks)**

### Question 4

Cage Beverages Ltd (CBL) purchases fruits and processes them into various juices such as Mango, Eden and Agog. During the month of April, 2015, CBL purchased fruits for Shs 1billion. Conversion costs of Shs 500 million were incurred up to split off point and at which time two saleable products; Mango and Eden were produced. Eden can be further processed into Agog. The production and sales data for April, 2015 were as follows:

	Production	Sales	Sales price per litre
	'000' litres	'000' litres	Shs
Mango	2,000	1,800	2,500
Eden	2,000		
Agog	1,000	1,000	9,000



All the 2 million litres of Eden were further processed at an incremental cost of Shs 500 million to yield 1 million litres of Agog. There were no by products or scrap from this further processing of Eden. There were also no beginning or ending inventories of Mango, Eden and Agog in April. Eden is on high demand and the company could have sold all its April production at Shs 7,500 per litre

**Required:**

- (a) Show how the joint costs of Shs 1.5 billion would be allocated between Mango and Agog using:
    - (i) sales value at split-off point method. **(5 marks)**
    - (ii) physical measure method. **(5 marks)**
    - (iii) estimated net realizable value method. **(6 marks)**
  - (b) Calculate the gross margin percentage of Agog under the three pricing methods in (a) above. **(5 marks)**
  - (c) Briefly explain the accounting treatment for the sale of scrap. **(4 marks)**
- (Total 25 marks)**

**SECTION C**

*Attempt two of the three questions in this section*

**Question 5**

- (a) Identify and explain the components of a standard cost. **(4marks)**
- (b) Explain the **three** approaches to the calculation of a standard cost. **(3marks)**
- (c) The general manager of a busy supermarket in Kampala, together with the human resource manager recently attended a workshop which centred on cost control which the duo were not familiar with.

Consequently, the general manager has approached you, in your capacity as the management accountant for advice on cost control.

**Required:**

Write a brief report to the general manager, copied to the human resource manager, advising them on cost control.

**(8 marks)**  
**(Total 15 marks)**

**Question 6**

- (a) Outline any **six** stages in a budgeting process. (3marks)
- (b) Explain any **three** behavioral aspects to performance reports in relation to controllable and uncontrollable costs. (5marks)
- (c) Explain **one** circumstance under which variable costs may replace fixed costs in decision making. (2marks)
- (d) (i) Define the term 'relevant cost' (1 mark)
- (ii) With an example, explain when variable and fixed costs may be relevant. (4marks)

(Total 15 marks)

**Question 7**

- (a) Explain briefly how overheads are recovered under:  
(i) activity-based costing (ABC) (3marks)  
(ii) absorption costing (3marks)
- (b) Outline any **four** behavioral aspects towards ABC's success in an Organisation. (4marks)
- (c) Write short notes on the following:  
(i) Cost driver (1 mark)  
(ii) Resource consumption cost driver. (2marks)  
(iii) Activity consumption cost driver. (2 marks)
- (Total 15 marks)