

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

INTRODUCTION TO MANAGEMENT ACCOUNTING – PAPER 9

SATURDAY, 7 JUNE 2014

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) Venansio Ltd has three main departments: crushing, sorting, and assembly. For period 3 ended 31 May 2014, 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.

(6 marks)

- (b) Pioneer Ltd 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 2014, 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 overheads	840,000	(adverse)
Fixed overheads	720,000	(adverse)

Required:

Calculate the actual cost of:

- (i) direct materials (3 marks)
- (ii) direct labour (3 marks)
- (iii) variable overheads (3 marks)
- (iv) fixed overheads (3 marks)
- (c) Explain why under or over recovery of overheads does occur in absorption costing. (3 marks)

(Total 25 marks)

Question 3

- (a) Petrochemical Ltd operates a process with the following details:
During the period ended 30 April 2014, 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 with respect to 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 account for the period. (8 marks)
- (iv) Explain the accounting treatment of the scrap value of normal loss in process costing (2 marks)
- (b) 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	(192,000)
Contribution	96,000
Fixed cost	(40,000)
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 2013, the company budgeted to produce 300,000 units of output with fixed production overhead costs of Shs 120,000,000. Actual performance 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 117,600,000. The opening inventory comprised of 24,000 units valued at Shs 24,000,000. The non-fixed production overhead costs were: administration Shs 32,000,000; selling and distribution Shs 16,000,000.

Required:

Prepare a profit statement based on:

- (a) absorption costing principles (14 marks)
- (b) marginal costing principles. (11 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.

Required:

Identify any **five** possible causes of discrepancies between the two balances.

(5 marks)

- (b) 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. (1 mark)
- (ii) Depreciation of delivery trucks. (1 mark)
- (b) Describe any **five** circumstances under which it might be necessary to make a relevant decision. (5 marks)
- (c) Explain any **five** advantages of marginal costing over absorption costing. (5 marks)
- (d) Describe the **two** methods normally used to account for by-products. (3 marks)
- (Total 15 marks)

Question 7

- (a) Distinguish between the following cost and management accounting concepts:
- (i) Fixed and flexible budgets. (2 marks)
- (ii) Conversion costs and contribution. (2 marks)
- (b) Explain any **five** roles of a management accountant in the planning process. (5 marks)
- (c) Using illustrations, explain any **five** contents of a profit-volume graph. (5 marks)
- (d) Explain the term 'interlocking accounting system' as used in cost and management accounting. (1 mark)
- (Total 15 marks)