

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

INTRODUCTION TO MANAGEMENT ACCOUNTING - PAPER 7

JUNE 2000

INSTRUCTIONS OT CANDIDATES

1. Time allowed: 3 hours.
2. Attempt all questions in Section **A**, **one** question in Section **B** and any **three** questions in Section **C**.
3. Section **A** has **twenty** compulsory questions each carrying 1 mark.
4. Section **B** has **two** questions and only **one** is to be attempted. Each question carries 20 marks.
5. Section **C** has **four** questions and only **three** questions are to be attempted. Each question carries 20 marks
6. Please, read further instructions on the answer book.

SECTION A:

Question 1:

- i) Which of the following best describes Prime Cost?
- a) Materials Cost.
 - b) Materials Cost + Overhead expenses.
 - c) Materials Cost + Labour Costs + Direct Expenses.
 - d) Direct Materials Cost + Direct Labour Costs + Direct Expenses.
- ii) Which of the following best explains value added?
- a) Sales-Cost of bought-in materials and services.
 - b) Sales-Services.
 - c) Services-Sales.
 - d) None of these.
- iii) Under the Standard Costing method:
- a) all issues are at a standard price.
 - b) all issues are at a predetermined price.
 - c) all issues are at actual price.
 - d) all issues are at a future price.
- iv) The method of sharing out overheads incurred amongst units produced is called:
- a) Activity Based Costing.
 - b) Marginal Costing.
 - c) Absorption Costing.
 - d) Zero Base Budgeting.
- v) Which of the following is an absorption rate?
- a) Budgeted activity level divided by estimated overheads.
 - b) Estimated overheads divided by budgeted activity level.
 - c) Actual overheads divided by cost per unit.
 - d) Budgeted activity level divided by actual output.

- vi) **The LIFO method of pricing is where:**
- a) Materials received first are issued first.
 - b) Issues are priced in the reverse order of purchase.
 - c) Materials are issued at the average cost of materials in store.
 - d) The materials are issued at an inflated price.
- vii) **A System where separate ledger accounts are kept for both Cost Accounting and Financial Accounting is called:**
- a) Integrated System.
 - b) Management Information System.
 - c) Interlocking System.
 - d) Accounting Information System.
- viii) **Cost plus pricing is where:**
- a) A desired profit is added to selling price.
 - b) A desired profit is added to prime cost.
 - c) A desired profit margin is added to total costs.
 - d) Cost is added to price.
- ix) **The following are found on the debit side of a contract account except:**
- a) Materials on site.
 - b) Materials issued.
 - c) Labour.
 - d) Cost of contract b/f.
- x) **The costs incurred upto the point of separation are called:**
- a) Opportunity Costs.
 - b) Abnormal Costs.
 - c) Controllable Costs.
 - d) Common Costs.

Information for questions (xi) – (xiii)

Bakwano Industries, among other products, manufactures soap. The following information relates to a type of material required in the manufacture of soap.

Annual demand	2,400 units
Unit price	Shs.2,400
Ordering cost per order	Shs.4,000
Storage Cost	2% per annum
Interest rate	10% per annum

xi) Calculate the carrying cost:

- a) Shs. 4.80
- b) Shs. 14.40
- c) Shs. 480
- d) Shs. 288

xii) Calculate the economic order quantity (EOQ)

- a) 258.2 units
- b) 632 units
- c) 200 units
- d) 400 units

xiii) Calculate the number of orders per annum:

- a) 12 orders
- b) 10 orders
- c) 6 orders
- d) 4 orders

xiv) The standard material required to manufacture one unit of product X is 10kg and the standard price per kg of material is Shs.2,500. The cost account records, however, reveal that 11,500kg of materials costing Shs.276,000 were used for manufacturing 1,000 units of the product. Calculate the material usage variance.

- a) Shs. 400,000 Favourable
- b) Shs. 3,750,000 Adverse
- c) Shs. 3,750,000 Favourable
- d) Shs. 4,750,000 Adverse

- xv) **The following are features of a spreadsheet except:**
- a) You can insert a column or row at desired spot.
 - b) You can control the headings and date the way you want.
 - c) You are able to save the spreadsheet on your diskette.
 - d) It is not possible to automate a sequence of commands.
- xvi) **Costs which are not affected by the level of activity are called:**
- a) Product Costs.
 - b) Period Costs.
 - c) Differential Costs.
 - d) Opportunity Costs.
- xvii) **Given that the P/V Ratio of a Manufacturing Company is 24%, fixed expenses are Ushs.120,000 and sales are Ushs.1,000,000. Calculate the Break Even Point:**
- a) Shs. 400,000
 - b) Shs. 900,000
 - c) Shs. 500,000
 - d) Shs. 1,000,000
- xviii) **Which one of the following is a drawback of the Payback Period?**
- a) The number of years required to recover the initial investment of the asset is determined.
 - b) The method gives good results in industries where the risk of obsolescence is high.
 - c) It ignores the profit earned after the recovery period is over.
 - d) It is easy to calculate.
- xix) **Which one of the following statements is false?**
- a) A Fixed budget is useful when the actual level of activity corresponds to the budgeted level of activity.
 - b) Estimate the sales given in the sales budget is a mere guess.
 - c) Limiting factor is a major constraint on all the operational activities of the organisation.
 - d) A master budget is the summary incorporating its components' functional budgets.

- xx) Under this method, the costs of service departments are directly apportioned to the production departments without taking into consideration any service from one service department to another.
- a) Step distribution method.
 - b) Repeated distribution method.
 - c) Simultaneous equation method.
 - d) Direct redistribution method.

SECTION B:

Question 2:

- a) Distinguish between Conversion Cost and Development Cost. (4 Marks)
- b) Distinguish between Management Accounting and Financial Accounting. (4 Marks)
- c) The following data have been extracted from the books of Sunshine Industries Ltd. for the year 1999.

	Ushs.million
Finished Goods on 1/1/1999	50,000
Raw Materials on 1/1/1999	10,000
Work in Progress on 1/1/1999	14,000
Direct Labour	160,000
Purchase of Raw Materials	98,000
Indirect Labour	40,000
Heat, Light and Power	20,000
Factory Insurance	5,000
Repairs to Plant	3,000
Factory Supplies	5,000
Depreciation – Factory Building	6,000
Depreciation – Plant	10,000

Other information made available is:

Factory cost of good produced in 1999	280,000
Raw Material consumed in 1999	95,000
Cost of goods sold in 1999	160,000
No office and administration expenses were incurred during the year:	

Required:

Prepare a statement showing:

- a) Prime Cost
- b) Factory Cost
- c) Cost of goods sold

(12 Marks)

(Total 20 Marks)

Question 3:

- a) What is normal loss? How is it treated in cost accounts? **(2 Marks)**
- b) Outline the four important aspects of process costing. **(2 Marks)**

- c) Nkuyange Chemicals Ltd. manufactures and sells their chemicals which are produced by consecutive processes. The production records for February 2000 show the following details:

Opening work-in-progress	2000 units
	Ushs.'000
Materials (100% complete)	5,000
Labour (60 % complete)	3,000
Overheads (60% complete)	<u>1,500</u>
	9,500
Units introduced into the process	8,000

There are 2,000 units in progress and the stage of completion is estimated to be:

Materials	100%
Labour	50%
Overheads	50%

8,000 units are transferred to the next process. The process costs for the period are:

	Ushs.million
Materials	95,000
Labour	60,000
Overheads	30,000

Required:

Prepare using the LIFO method a:

- a) Statement of Equivalent Units. (4 Marks)
- b) Statement of Cost. (4 Marks)
- c) Statement of Evaluation. (4 Marks)
- d) Process Account. (4 Marks)

(Total 20 marks)

SECTION C

Question 4:

- a) Define the term "budget" as used in Management Accounting and explain what is meant by "budgetary control". (4 Marks)
- b) Discuss briefly the objectives of budgetary control. (4 Marks)
- c) Explain with examples the three control ratios used for performance evaluation. (12 Marks)

(Total 20 marks)

Question 5:

- a) What is meant by "Marginal Costing"? (1 Mark)
- b) What is its usefulness contributions to management in decision making? (2 Marks)
- c) A manufacturer with an overall (interchangeable among the products) capacity of 100,000 machine hours has been so far producing a standard mix of 15,000 units of product A, 10,000 units of product B and C each. From experience, the total expenditure exclusive of his fixed charges is found to be Shs.209,000,000. The cost ratio among the products approximate 1:1.5: 1.75 respectively per unit. The fixed charges come to Shs 2,000 per unit. When the unit selling prices are Shs.6,250 for A, Shs. 7,500 for B and Shs.10,500 for C, he incurs a loss.

He desires to change the product mix as follows:-

	Mix - 1	Mix - 2	Mix - 3
A	18,000	15,000	22,000
B	12,000	6,000	8,000
C	7,000	13,000	8,000

Required:

As a Management Accountant, what mix will you recommend using Marginal Costing Method?

(17 Marks)

Question 6:

(Total 20 Marks)

- a) What is meant by Break-even analysis? **(1 Mark)**
- b) Outline the assumptions underlying the Break-even Charts. **(3 Marks)**
- c) The following information is obtained from Millennium Holdings Ltd. for April 1999.

	Ushs.
Sales	20,000,000
Variable Costs	10,000,000
Fixed Costs	6,000,000

Required:

- i) Calculate the P/V Ratio, Break-even point and Margin of Safety at this level.
- ii) Calculate the effect of 20% decrease in fixed costs and 10% decrease in variable costs.

(16 Marks)

Question 7:

(Total 20 Marks)

- a) Write short notes on:

- i) Payback period

(2 Marks)

A choice is to be made between two competing projects 1 and 2 which require an equal investment of Ushs. 50,000,000 and are expected to generate cash flows as follows:

	Project 1	Project 2
	Ushs.	Ushs.
1994	25,000,000	10,000,000
1995	15,000,000	12,000,000
1996	10,000,000	18,000,000
1997	NIL	25,000,000
1998	12,000,000	8,000,000
1999	6,000,000	4,000,000

Additional data:

Time (Years)	0	1	2	3	4	5	6
Discount Factor(10%)	1.000	0.909	0.826	0.751	0.683	0.621	0.564

Required:

Which project should be chosen and why? Evaluate the project proposals using the NPV method.

(16 Marks)

(Total 20 Marks)