

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA (U) EXAMINATIONS

LEVEL TWO

INTRODUCTION TO MANAGEMENT ACCOUNTING – PAPER 7

MONDAY, 16 DECEMBER 2002

INSTRUCTIONS TO 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 multiple-choice 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) When considering qualitative factors to influence your make or buy decisions, which of the following is not taken into consideration?
 - a) Quality of goods supplied.
 - b) Price of goods supplied.
 - c) Secrecy of know-how.
 - d) Labour relations.
- (ii) In drawing up a long term contract agreement, any changes in the contract price due to increases in the cost of raw materials and labour are provided for using:
 - a) Cost plus clause.
 - b) Marginal costing clause.
 - c) Escalation clause.
 - d) Retentions clause.
- (iii) A document used to record direct material, direct wages and overheads in job costing is called:
 - a) A proforma invoice.
 - b) A bin card.
 - c) Inventory ledger account.
 - d) A cost card.
- (iv) A system of recording financial and cost accounting transactions in one self-contained ledger is called:
 - a) Integrated accounting system.
 - b) Control accounting.
 - c) Cost book keeping.
 - d) Interlocking accounting system.
- (v) Credit and collection cost is an item of:
 - a) Selling overhead.
 - b) Prime cost.
 - c) Factory cost.
 - d) Office overhead.
- vi) The cost of the process which begins with the implementation of the decision to produce a new or improved product and ends with the commencement of formal production is called:

- a) Research cost.
 - b) Total cost.
 - c) Development cost.
 - d) Prime cost.
- (vii) Which of the following is **not** a limitation of standard costing?
- a) Heavy costs.
 - b) Frequent revision.
 - c) Users resentment.
 - d) Cost consciousness.
- (viii) The following budgets are on the basis of function except:
- a) Production budget.
 - b) Cash budget.
 - c) Research budget.
 - d) Sales budget.
- (ix) Financial viability of a project is judged by the detailed assessment of the following factors except:
- a) Technology used.
 - b) Cost of the project.
 - c) Sources of finance.
 - d) Profitability.
- (x) The rate of interest at which the present value of the cash inflows and outflows become equal given the life time of a project is called:
- a) Net present value.
 - b) Discount rate.
 - c) Pay back period.
 - d) Average rate of return.
- (xi) Which of the following is not a function of the purchases department of a large organization?
- a) What to purchase.
 - b) At what price to purchase.
 - c) Where to purchase.
 - d) Maintaining bin cards.

- (xii) Maintenance of and repairs to plant and machinery can be divided into the following sub headings except:
- a) Scrap maintenance
 - b) Running maintenance
 - c) Preventive maintenance
 - d) Breakdown maintenance
- (xiii) Machine-hour-rate is obtained by dividing the total running expenses of a machine in a period by thethe machine is expected to work.
- a) Total units.
 - b) Number of hours.
 - c) Number of people.
 - d) Value of materials.
- (xiv) A wage payment system under which a worker is paid at an hourly, daily, weekly or monthly rate is called:
- a) Time wage system.
 - b) High day rate.
 - c) Piece rate system.
 - d) Measured day rate.
- (xv) The basic function of management accounting is to:
- a) Interpret all business transactions.
 - b) Preparation of financial statements.
 - c) Assist management in performing its functions effectively.
 - d) Attain non-economic goals.

Use the following data to answer questions (xvi) - (xviii).

Given that:

Fixed expenses = Shs. 40,000

B.E.P = Shs. 100,000

- (xvi) Calculate the P/V ratio.
- a) 40%.
 - b) 50%.
 - c) 30%.
 - d) 60%.
- (xvii) Calculate the profit when sales are Shs. 200,000.
- a) Shs. 50,000.
 - b) Shs. 45,000.
 - c) Shs. 40,000.
 - d) Shs. 35,000.

- (xviii) Calculate the new B.E.P if selling price is reduced by 20%.
- a) Shs. 100,000.
 - b) Shs. 160,000.
 - c) Shs. 200,000.
 - d) Shs. 120,000.
- (xix) Which of the following statements is false?
- a) Cash flows from a project can be worked out only on the basis of certain probabilities.
 - b) Discounted cash-flow technique takes into account the time value of money.
 - c) Tax concessions have no role to play in estimating the cash flows from a project.
 - d) Depreciation is included in costs in case of accounting rate of return method.
- (xx) One of the objectives of standard costing is to:
- a) Promote and measure performance.
 - b) Set cost of manufacture.
 - c) Simplify production operations.
 - d) Control and reduce costs.

SECTION B**Question 2**

(a) In relation to overheads define each of the following:

(i) Allocation (2 marks)

(ii) Apportionment (2 marks)

(iii) Absorption (2 marks)

(b) Road Runners (U) Ltd manufactures bicycles. The following data were extracted from their cost accounts for the month of August 2002. The company has two departments of Production and Assembly.

	Total	Production Department	Assembly Department
Indirect labour (Shs)	4,000,000	2,000,000	2,000,000
Power (Shs)	2,000,000	-	-
Repair to machines (Shs)	4,000,000	3,200,000	800,000
Depreciation on machines (Shs)	6,000,000	-	-
Factory rent (Shs)	10,000,000	-	-
Supervision (Shs)	7,000,000	4,000,000	3,000,000
Direct labour (Shs)	45,000,000	20,000,000	25,000,000
Direct materials (Shs)	60,000,000	35,000,000	25,000,000
Floor space (M ²)	20,000	10,000	10,000
Book value of machines (Shs)	90,000,000	60,000,000	30,000,000
Machine Horse Power (H.P)	1,000	600	400
Machine Hours worked	30,000	25,000	5,000
Direct labour hours worked	80,000	50,000	30,000

The prime costs of Batch Z-909 were as follows:

	Total	Production	Assembly
Materials (Shs)	6,000,000	2,900,000	3,100,000
Labour (Shs)	4,000,000	1,800,000	2,200,000
Direct labour Hours	9,000	3,000	6,000
Machine hours	3,000	2,000	1,000

Batch Z-909 consists of 200 units of bicycles.

Required:

(i) Prepare an overhead analysis cost sheet. (10 marks)

(ii) Calculate the unit cost of each bicycle in Batch Z-909. (4 marks)

(Total 20 marks)

Question 3

- (a) (i) Define:
- Abnormal loss. (1 mark)
 - Abnormal gain. (1 mark)
- (ii) How are abnormal losses and abnormal gains treated in cost accounts? (2 marks)
- b) In RAFA (U) Ltd, their product passes through two processes of melting and fabrication. A normal loss of 2% is allowed in melting and 5% in fabrication. The disposal of scrap fetches Shs. 1,500 per unit. There were 800 units of finished product at the end of July 2002. During August 2002, 20,000 units of materials costing Shs. 8,000 per unit were introduced into the melting process. Below are other costs:

	Melting Process	Fabrication Process
	Shs	Shs
Labour	10,000,000	6,000,000
Materials	-	7,000,000
Overheads	4,000,000	4,000,000

Output from the Melting Process were 19,200 units; 19,000 units were produced by Fabrication which were warehoused.

Required:

Prepare the Process Accounts. (16 marks)

SECTION C**Question 4**

- (a) Explain the following terms:
- (i) Cost centre. (2 marks)
 - (ii) Cost unit. (2 marks)
 - (iii) Profit centre. (2 marks)
- (b) Outline **four** distinctions between management and financial accounting. (4 marks)
- (c) Outline any **five** duties of a cost accountant in an organization. (5 marks)
- (d) Briefly outline the procedural steps involved in the introduction and operationalisation of a management accounting system in an organization. (5 marks)
- (Total 20 marks)**

Question 5

- (a) Distinguish between a material requisition note and bill of materials. **(2 marks)**
- (b) Explain how the return of surplus materials is priced. **(2 marks)**
- (c) The following records were extracted from the books of Fraternity Manufacturing Ltd as at 30 June 2002.

	Quantity (Units)	Price per unit (Shs)
June 1 Opening inventory	3,000	9,000
3 Purchase	2,500	9,800
11 Issue	4,000	
15 Purchase	3,000	10,000
20 Issue	2,100	
25 Purchase	2,500	11,000
29 Issue	2,600	

Required:

Using the LIFO pricing method, prepare a stores ledger account for the month of June 2002 highlighting:

- (i) Consumption value of raw materials. **(10 marks)**
- (ii) Value of closing inventory at 30 June 2002. **(2 marks)**
- (d) Give **four** reasons why physical inventory counting is an important activity in any organization other than relying on inventory records only for inventory management. **(4 marks)**
- (Total 20 marks)**

Question 6

- (a) List any **five** possible causes of adverse labour efficiency variance. **(5 marks)**
- (b) The following data was extracted from the cost books of Vision Impex Ltd, manufacturers of medical chemicals.

	Standard	Actual
Number of men employed	100	90
Number of working days in a month	20	18
Output in units	7,000	6,500
Average wages per man per month (Shs.)	300,000	270,000

Required:

- Compute the Labour Variances. **(15 marks)**
- (Total 20 marks)**

Question 7

- (a) Give four advantages and four disadvantages of Accounting Rate of Return (ARR) as a method of Investment Appraisal. **(8 marks)**
- (b) As a Management Accountant in your organization, write a report to your Managing Director on the procedure to be followed during capital budgeting. **(7 marks)**
- (c) A poultry project with an initial outlay of Shs. 16,000,000 generated the following revenues:

Year	Revenue (Shs 000's)
1	Nil
2	5,000
3	6,000
4	7,200
5	7,800
6	8,000

The operating expenses right from the first year were a constant Shs. 2,500,000.

Required:

- (i) Compute the net benefit of the project. **(1 mark)**
- (ii) Calculate the payback period of the project. **(2 marks)**
- (iii) Calculate the project's accounting rate of return. **(2 marks)**
- (Total 20 marks)**