

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA (U) EXAMINATIONS

LEVEL TWO

INTRODUCTION TO MANAGEMENT ACCOUNTING – PAPER 7

MONDAY, 21 JUNE 2004

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) Goods purchased for incorporation into products for sale are known as:
 - (a) Work in progress.
 - (b) Packages.
 - (c) Components.
 - (d) Finished goods.
- (ii) Fixed costs are ignored in making short-term management decisions because they are:
 - (a) Related to activity levels in the short run.
 - (b) Unrelated to activity levels in the short run.
 - (c) Related to activity levels in the long run.
 - (d) Unrelated to activity levels in the long run.
- (iii) Expenditure which can be economically identified with a specific saleable unit is called:
 - (a) An overhead.
 - (b) Prime cost.
 - (c) Fixed cost.
 - (d) Variable cost.
- (iv) Which of the following is false?
 - (a) Managers must be responsible for producing their own functional budgets.
 - (b) A fixed budget system compares actual results with the original budgets.
 - (c) The preparation of a budget is undertaken by an executive director.
 - (d) Functional budgets are combined to form a master budget.
- (v) The difference between a planned or budgeted cost and the actual cost incurred is known as:
 - (a) A standard cost.
 - (b) A budget.
 - (c) Marginal cost.
 - (d) Variance.
- (vi) Information produced by Management Accountants is used by Company Management for all the following except:
 - (a) Recruitment and selection of new employees.
 - (b) Performance appraisal of the current employees.
 - (c) Pricing company products.
 - (d) Cost control.

- (vii) A cost centre may take any of the following forms except:
- (a) A department.
 - (b) An area.
 - (c) A machine.
 - (d) An output.
- (viii) In breakeven charts, the angle of incidence is formed between:
- (a) The total cost line and the fixed cost line.
 - (b) The total cost line and the sales line.
 - (c) The sales line and fixed cost line.
 - (d) None of the above.
- (ix) A costing technique involving the sharing of production overheads to cost centres is known as:
- (a) Apportionment.
 - (b) Absorption.
 - (c) Contribution.
 - (d) Diversification.
- (x) The consistent parts of cost according to the factors upon which expenditure is incurred are known as:
- (a) Product cost.
 - (b) Element of cost.
 - (c) Process cost.
 - (d) Prime cost.
- (xi) Which of the following is a journal entry for cost of sales in cost ledger accounting?
- (a) Dr. Cost of Sales A/C and Cr. Sales A/C.
 - (b) Dr. Sales A/C and Cr. Cost of Sales A/C.
 - (c) Dr. Sales A/C. and Cr. Profit & Loss A/C.
 - (d) Dr. Profit & Loss A/C and Cr. Sales A/C.
- (xii) Which of the following investment appraisal techniques gives an absolute financial result?
- (a) Accounting Rate of Return (ARR).
 - (b) Internal Rate of Return (IRR).
 - (c) Pay Back.
 - (d) Net Present Value (NPV).
- (xiii) What basis could you recommend for apportioning rent for a supermarket?
- (a) Ground rent.
 - (b) Floor area.
 - (c) Electricity light points.
 - (d) Book value of building.

- (xiv) The following methods are used to segregate semi variable into fixed and variable overhead costs except:
- (a) Decimal method.
 - (b) Methods of average.
 - (c) High-low method.
 - (d) Least squares method.

Use the following information to answer questions (xv) to (xvii).

The Profit Volume (P/V) ratio of Lugoba Traders Ltd dealing in precision instruments is 50%, the margin of safety is 40%, and the sales volume is Shs 50 million.

- (xv) Calculate the margin of safety in shillings
- (a) Shs 10,000,000.
 - (b) Shs 15,000,000.
 - (c) Shs 30,000,000.
 - (d) Shs 20,000,000.
- (xvi) Calculate the sales at B.E.P.
- (a) Shs 30,000,000.
 - (b) Shs 20,000,000.
 - (c) Shs 40,000,000.
 - (d) Shs 10,000,000.
- (xvii) Calculate the contribution.
- (a) Shs 30,000,000.
 - (b) Shs 15,000,000.
 - (c) Shs 10,000,000.
 - (d) Shs 20,000,000.
- (xviii) Which of the following is NOT a technique for stock control?
- (a) Just in Time (JIT).
 - (b) Standard costing.
 - (c) Economic Order Quantity (EOQ).
 - (d) Materials Requirements Planning (MRP).
- (xix) Management Accountants are concerned about value for money (VFM) in their operations. Which of the following is NOT their concern?
- (a) To ensure that output is produced within budgeted cost.
 - (b) To ensure that good quality inputs are used to produce quality output.
 - (c) To ensure that the customer pays for the goods on time.
 - (d) To ensure that the customer's order is delivered on time to the satisfaction of the customer.

- (xx) The ratio of output to input is a measure of:
- (a) Economy.
 - (b) Effectiveness.
 - (c) Productivity.
 - (d) Cost reduction.

SECTION B

Question 2

- (a) Identity three ways of classifying the wages of an employee giving the purpose of each classification. (6 marks)
- (b) ***The following information relates to the wages paid to workers for a four week period in a factory weaving department where two products, blankets and bed sheets are manufactured.***

All workers are paid at hourly rates. Basic rates (gross) are Shs 800 per hour for direct workers and Shs 600 per hour for indirect workers for a 40 hour week.

The department employs 24 direct workers and 9 indirect workers. Overtime is regularly worked to meet general production requirements, and is paid at a premium of 25% over basic rate for all workers. Overtime hours in the four week period were 256 and 84 for direct and indirect workers respectively.

Production of the two products during the four week period was:

Blankets – 9,640 units in 1,620 hours of direct workers' time.

Bed sheets – 22,800 units in 2,270 hours of direct workers' time.

The balance of the direct workers' time in the period was non productive time.

The net wages paid (i.e. net of employee deductions) in the period were:

Direct workers Shs 2,509,000.

Indirect workers Shs 715,000.

The factory uses a batch costing system, based on actual costs which is integrated with the financial accounts.

Required:

- (i) Calculate the gross wages, for the four week period in the weaving department for both direct and indirect workers. (6 marks)
- (ii) Prepare the weaving department's Wages Control Account for the period showing detailed workings to justify the calculation of both direct and indirect wages. (8 marks)

(Total 20 marks)

Question 3

- (a) What is Zero Base Budgeting? (2 marks)
- (b) Distinguish between a sales budget and a production budget. (6 marks)
- (c) Generations Ltd., manufactures three products: A, B, and C. These products require mixing two or three different materials i.e. X, Y, and Z. The following data was extracted from the books of Generations Ltd. in 2003.

		Products		
		A	B	C
Sales price / unit	Shs '000	200	240	280
Sales Quantity	Nos.	200	400	300
Inventory				
Opening	Nos.	200	300	100
Closing	Nos.	220	330	110
		Materials		
		X	Y	Z
Price per kg	Shs	8,000	12,000	18,000
Input:		Kg	Kg	Kg
Inproduct	A	8	4	-
	B	6	6	4
	C	4	2	2
Inventory at hand:				
Opening		5,200	4,000	2,400
Closing		6,240	4,800	2,880

Required:

- (i) Prepare a sales budget for Generations Ltd. (5 marks)
- (ii) Prepare a production budget in quantities for Generations Ltd. (7 marks)
- (Total 20 marks)**

SECTION C**Question 4**

- (a) Define the term by-product. **(2 marks)**
- (b) To distinguish between by-products, main product and joint products, there are two checks applied. What are these checks? **(2 marks)**
- (c) When does a by-product become a main product and vice versa? **(1 mark)**
- (d) Outline the methods for valuing work-in-progress in process costing. **(2 marks)**
- (e) Tano Processors Ltd furnished the following information to its part-time management accountant in July 2003:

Opening work-in-progress		4000 units
Materials	(100% complete)	Shs 75,000
Labour	(60% complete)	Shs 30,000
Overheads	(60% complete)	Shs 15,000
Units introduced into the process		8,000

There are 4,000 units in process 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:

	Shs
Materials	1,000,000
Labour	780,000
Overheads	390,000

Required:

Using the average cost method prepare:

- (i) Statement of equivalent production. **(2 marks)**
- (ii) Statement of cost. **(3 marks)**
- (iii) Statement of evaluation **(4 marks)**
- (iv) Process A/C. **(4 marks)**

(Total 20 marks)

Question 5

- (a) Distinguish between:
- (i) Perpetual Inventory and Continuous Stock taking. **(4 marks)**
 - (ii) Bill of materials and material requisition note. **(4 marks)**
- (b) Explain what procedure you would adopt to deal with the following items in stores records:
- (i) Gain or loss in weight through climatic conditions. **(1 mark)**
 - (ii) Breakage in store. **(1 mark)**
- (c) UgaDil, a well known distributor of fuel products in Uganda closes its accounts at the end of every month. You have been availed with the following information for the month of May 2004:

	Shs '000
Sales	500,000
Administrative expenses	10,000
Inventory, 1 May	
50 tons @ Shs 1,500,000	75,000
Purchases:	
15 May, 150 @ Shs 1,300,000	195,000
18 May, 150 tons @ Shs 1,400,000	210,000
Inventory, 31 May 2004, 100 tons	

Required:

Using the FIFO method, compute the following:

- (i) Inventory valuation at 31 May 2004 **(1 mark)**
 - (ii) Cost of goods sold for the month of May 2004 **(5 marks)**
 - (iii) Profit or loss for the month of May 2004 **(4 marks)**
- (Total 20 marks)**

Question 6

- (a) Distinguish between a production department and a service department giving an example of each. **(4 marks)**
- (b) Outline any four sources from which overhead expenses are collected in management accounting. **(4 marks)**

- (c) Katojo Ltd is a manufacturing company with two production departments X and Y, and two service departments i.e. stores and maintenance. The data for April 2004 is as follows:

	X	Y	Stores	Maintenance
	Shs'000	Shs '000	Shs '000	Shs '000
Overhead costs	10,030	8,970	10,000	8,000
Cost of material acquisitions	30,000	50,000	-	20,000
Maintenance hours needed	8,000	1,000	1,000	-

A technical assessment for the apportionment of expenses of service departments is as follows:

	X	Y	Stores	Maintenance
	%	%	%	%
Stores	30	50	-	20
Maintenance	70	20	10	-

Required:

Apportion the overheads to the production departments using the simultaneous equation method.

(12 marks)
(Total 20 marks)

Question 7

- (a) Define the term “capital expenditure”. **(2 marks)**
- (b) The Board of Directors of your company has decided on a major scheme of capital expenditure on additional building, plant and machinery. As a management accountant, advice the board on the major steps in a comprehensive capital budgeting process. **(7 marks)**
- (c) Humble Ways Ltd. with a cost of capital of 5% is contemplating investing Shs 400,000,000 in a project which has a 25% chance of being a big success and producing cash inflows of Shs 270,000,000 after one and two years. There is, however, a 75% chance of the project not being so successful in which case the cash inflows will be Shs 240,000,000 after one year and Shs 230,000,000 after two years.

Required:

Calculate the expected net present value of the project and advise the company on the way forward.

(11 marks)
(Total 20 marks)