

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA (U) EXAMINATIONS

LEVEL TWO

INTRODUCTION TO MANAGEMENT ACCOUNTING – PAPER 7

MONDAY, 12 DECEMBER 2005

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) Which of the following budgets are not classified according to time?
 - (a) Flexible budgets.
 - (b) Rolling budgets.
 - (c) Current budgets.
 - (d) Long-term budgets.
- (ii) In marginal costing are met against the total fund arising out of excess of selling price over total variable cost.
 - (a) prime costs.
 - (b) variable costs.
 - (c) fixed costs.
 - (d) factory costs.
- (iii) is the written authorization to the supplier to supply particular materials.
 - (a) Purchase requisition.
 - (b) Tender form.
 - (c) Purchase order.
 - (d) Bill of payment.
- (iv) The following are preventive costs of labour turnover except:
 - (a) costs of provision of good working conditions
 - (b) costs of provision of welfare facilities.
 - (c) costs of recruitment of new workers.
 - (d) costs of provision of factory safety measures.
- (v) The following are demerits of centralized stores except:
 - (a) better layout of stores.
 - (b) delays and inconveniences are caused to departments.
 - (c) greater risk of loss is possible.
 - (d) transportation costs may be increased.

Use the information above to answer questions (vi) – (xi):

Afes Ltd. manufactures two types of products: Pines and Bines. Pines take 10 hours to make while Bines take 20 hours. During May 2005, 500 units of Pines and 300 units of Bines were produced. Total budgeted hours were 8,500 hours. The factory employs 50 men and there were 22 working days of 8 hours each during the month.

- (vi) Calculate the standard hours for actual production of Pines.
 - (a) 3,000 hours.
 - (b) 5,000 hours.
 - (c) 6,000 hours.
 - (d) 1,000 hours.
- (vii) Calculate the standard hours for actual production of Bines.
 - (a) 3,000 hours.
 - (b) 5,000 hours.
 - (c) 4,000 hours.
 - (d) 6,000 hours.
- (viii) Calculate the standard hours for actual production of both products.
 - (a) 8,500 hours.
 - (b) 11,000 hours.
 - (c) 10,000 hours.
 - (d) 9,000 hours.
- (ix) Calculate the actual hours worked by the 50 men.
 - (a) 8,500 hours.
 - (b) 8,800 hours.
 - (c) 10,000 hours.
 - (d) 11,000 hours.
- (x) Calculate the activity ratio.
 - (a) 103.5%
 - (b) 105%
 - (c) 100%
 - (d) 129%
- (xi) Calculate the capacity ratio.
 - (a) 103.5%
 - (b) 100.9%
 - (c) 129%
 - (d) 100%

- (xii) Which of the following is false?
- (a) Cashflows from a project can be computed only on the basis of certain probabilities
 - (b) IRR determines the maximum rate of interest that a company can afford to pay on its borrowings for a project.
 - (c) While calculating the return on a project, depreciation is considered according to the ARR method.
 - (d) Tax concessions have no role to play in estimating the cashflows from an investment project.
- (xiii) Which of the following is true?
- (a) The basis of apportionment of cost of stores services is the number of employees.
 - (b) The basis of apportionment of crèche expenses is number of hours worked.
 - (c) The basis of apportionment of depreciation of plant is the machine hours in each production department.
 - (d) The basis of apportionment of welfare department expenses is wages paid to the department.
- (xiv) The various objectives for which research and development is carried out include the following except:
- (a) To acquire better know-who.
 - (b) To find new uses for products.
 - (c) To explore possibilities of a larger market.
 - (d) To improve the existing processes and products.
- (xv) When materials are returned to the supplier, the accounting entry is to the General Ledger Adjustment Account andthe Stores Ledger Control Account.
- (a) Credit, debit.
 - (b) Debit, credit.
 - (c) Debit, debit.
 - (d) Credit, credit.
- (xvi) The following are standing costs in transport costing except:
- (a) Fuel expenses.
 - (b) Salary of inspector.
 - (c) Insurance of vehicle.
 - (d) Licence fees.

- (xvii) In process costing, when 1000 units are 70% complete in a process, it is equivalent to completed units.
- (a) 600 units.
 - (b) 800 units.
 - (c) 1,000 units.
 - (d) 700 units.
- (xviii) The most important criterion for distinguishing between scrap, by-product and joint products is the of the products.
- (a) Material ratio.
 - (b) Replacement cost.
 - (c) Relative sales value.
 - (d) Standard cost.
- (xix) A planning and budgeting process which requires every manager to justify his entire budget request in detail from scratch is called:
- (a) Cash budget.
 - (b) Flexible budget.
 - (c) Zero base budgeting.
 - (d) Responsibility budgeting.
- (xx) Which of the following is not the responsibility of a management accountant?
- (a) Planning.
 - (b) Controlling.
 - (c) Coordinating.
 - (d) Litigation.

SECTION B

Question 2

- (a) Define the terms Management Accounting and Financial Accounting. **(4 marks)**
- (b) Outline any four characteristics of an Ideal Cost Accounting. **(4 marks)**
- (c) Give two advantages of Management Accounting to:
- (i) Management.
 - (ii) Workers.
 - (iii) Government.

(12 marks)
(Total 20 marks)

Question 3

- (a) Define abnormal loss. (2 marks)
- (b) Define abnormal gain. (2 marks)
- (c) Explain how abnormal loss with a scrap value is treated in Management Accounts. (6 marks)
- (d) Explain and give details of information found in a cost sheet of a service business such as a bus service. (3 marks)
- (e) Define Equivalent Units. (1 mark)
- (f) Distinguish between the FIFO and Weighted Average approaches to the treatment of Opening Work in Process in process costing. (6 marks)
- (Total 20 marks)**

Question 4

- (a) Distinguish between direct materials and indirect materials. (2 marks)
- (b) Distinguish between a Bin Card and a Stores Ledger. (4 marks)
- (c) Bivamuntuyo Ltd. is a refreshment outlet for two beverages in Iganga Town. The following data relates to the company during 2004.

	Fanta	Evervess
	Shs. million	Shs. million
Stock in hand 1.1.2004	50	80.5
Stock in hand 31.12.2004	20	30
Purchases during the year	125	180

Required:

- (i) Calculate the cost of beverage consumed during the year for each beverage. (4 marks)
- (ii) Calculate the average stock for each beverage. (5 marks)
- (iii) Calculate the beverage turnover ratio for each beverage. (2 marks)
- (iv) Calculate the beverage turnover in days and advise the company on which one is slow moving and fast moving. (3 marks)
- (Total 20 marks)**

Question 5

(a) Define the term marginal costing. (1 mark)

(b) Give three ways by which P/V Ratio can be improved. (3 marks)

(c) Pride Manufacturers Ltd. have been in business since 1990. Looking ahead to the financial year ending 31 December 2005, the directors are faced with a budgeted loss of Shs. 20,000,000 as shown by the data below:

Budgeted number of units:	10,000
	Shs. million
Sales	200
Variable costs	<u>150</u>
Contribution	50
Fixed costs	<u>70</u>
Budgeted loss	<u>(20)</u>

The directors would like to aim for a profit of Shs. 40,000,000. Various proposals have been suggested, none of which requires a change in the budgeted level of fixed costs.

- (i) Reduce the selling price of each unit by 10%.
- (ii) Increase the selling price of each unit by 10%.
- (iii) Stimulate sales by improving the quality of product and this would increase the variable cost of the unit by Shs. 5,000 per unit.

Required:

For each proposal calculate:

(i) The break-even position in units. (6 marks)

(ii) The number of units required to be sold in order to meet the profit target. (7 marks)

(ii) Which proposal should be adopted and why? (3 marks)

(Total 20 marks)

Question 6

- (a) Distinguish between allocation, apportionment and absorption of overheads giving examples in each case. **(6 marks)**
- (b) The following data relates to the activities of the production department of Zuenia Ltd. for the month of July 2005.

	Production Dept. (Shs. million)	Order Number (B21) (Shs.)
Direct materials consumed	240	40
Direct wages	360	50
Overhead chargeable	300	
Direct labour hours worked	30,000 hours	10
Machine hours operated	10,000 hours	4

The company adds a margin of 50% to the total production cost of specific units in order to cover administration expenses and to provide a profit.

Required:

- (i) Calculate the total selling price of order number B21 if overhead is absorbed using:
- Direct labour hours.
 - Machine hours.
- (ii) State which of the above methods you would recommend for the company. Justify your recommendation.

(14 marks)
(Total 20 marks)

Question 7

- (a) Sunami Ltd., in considering investing in a new ship has heard about Payback period as a method of appraising capital investments. As a Management Accounting trainee, you have been formally approached to prepare a report to explain the above method.

Required:

Prepare a report to guide management about the method.

(7 marks)

- (b) Jumbo Ltd. has some capital available for investment. It is considering two projects. Only one of them can be financed. The details are as follows:

	Project	
	A	B
	Shs.	Shs.
	millions	millions
Initial cost	120	100
Expected Net Cash flows (excluding the initial cost)		
Year		
1	20	30
2	40	60
3	80	40
4	40	30
Residual Value	NIL	NIL
Expected life (yrs)	4	3

The company expects a rate of return of 12% per annum on its capital.

Required:

Advise management on which project to finance.

(13 marks)**(Total 20 marks)**