

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA (U) EXAMINATIONS

LEVEL ONE

MANAGEMENT ACCOUNTING AND FINANCE – PAPER 6

WEDNESDAY, 18 JUNE 2008

INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours**
2. Attempt all questions in Section **A**, any **three** questions in Section **B** and any **one** question in Section **C**.
3. Section **A** has **twenty** compulsory multiple-choice questions each carrying 1 mark.
4. Section **B** has **four** questions and only **three** are to be attempted. Each question carries 20 marks.
5. Section **C** has **two** questions and only **one** question is to be attempted. Each question carries 20 marks.
6. Tables are provided on page 11.
7. Please read further instructions on the answer book.

SECTION A

Question 1

- (i) Which of the following sources of finance is **NOT** commonly offered by commercial banks?
 - (a) Short-term loans.
 - (b) Overdraft facilities.
 - (c) Medium-term loans.
 - (d) Long-term loans.
- (ii) Which of the following is most likely to reduce the firm's working capital?
 - (a) Lengthening the credit period given to debtors.
 - (b) Buying new machinery.
 - (c) Adopting the Just-in-time procurement model.
 - (d) Adopting the Miller-Orr model of cash management.
- (iii) The cost of scheduling production can be flexed under Activity Based Budgeting through the number of:
 - (a) set-ups.
 - (b) direct labour hours.
 - (c) parts used in production.
 - (d) items produced.
- (iv) Which of the following factors might **NOT** influence the sales budget?
 - (a) Anticipated advertising.
 - (b) Pricing policies and discounts offered.
 - (c) Economic environment.
 - (d) Production overheads.
- (v) Which of the following is a cause of a favourable labour efficiency variance?
 - (a) Material of higher quality than standard.
 - (b) Unexpected slump in demand.
 - (c) Labour strikes.
 - (d) Poor machine maintenance.
- (vi) The overhead absorption rate can be described as a ratio of:
 - (a) estimated overheads to actual activity level.
 - (b) estimated overheads to budgeted activity level.
 - (c) actual overhead to actual activity level.
 - (d) actual overhead to budgeted activity level.

- (vii) Which level of management is concerned with setting or changing the objectives of an organization?
- (a) Tactical.
 - (b) Strategic.
 - (c) Operational.
 - (d) Technical.
- (viii) Where two or more investment projects exist and only one project can be chosen, such projects are referred to as:
- (a) independent.
 - (b) mutually exclusive.
 - (c) multiple.
 - (d) conventional.
- (ix) Under process costing system, a loss inherent in every production process is referred to as:
- (a) Abnormal.
 - (b) Normal.
 - (c) Process.
 - (d) Actual.
- (x) Which of the following does **NOT** relate to the split-off point under process costing?
- (a) Joint products and by products may emerge.
 - (b) It is a point at which products that cannot be separately identified emerge.
 - (c) Products with significant sales values might emerge.
 - (d) Various products that emerge require different costing techniques.
- (xi) The difference between the operating point and the break-even point is referred to as:
- (a) Break even sales.
 - (b) Margin of safety.
 - (c) Buffer point.
 - (d) Contribution.
- (xii) According to the economist, the profit maximizing point is a point at which:
- (a) total cost equals to total revenue.
 - (b) marginal cost equals to marginal revenue.
 - (c) total profits equal to total revenue.
 - (d) total profits equal to total costs.

- (xiii) Which method of specific order costing would be most suitable for large and long lasting projects?
- (a) Job costing.
 - (b) Process costing.
 - (c) Contract costing.
 - (d) Absorption costing.
- (xiv) Which of the following sources of finance has characteristics of both debt and equity?
- (a) Ordinary share capital.
 - (b) Debenture capital.
 - (c) Share premium.
 - (d) Preference share capital.
- (xv) Which of the following factors may increase the cash flow of a business?
- (a) Inflation.
 - (b) Making losses.
 - (c) Growth in business.
 - (d) Postponing loan repayments.

Use the following information to answer questions (xvi) and (xvii):

Product Z has a standard direct material cost of 15 kg of material Y at shs 200 per kg. During the third quarter, 1,000 units of Z were manufactured, using 12,000 kg of material Y, which cost Shs 2,100,000.

- (xvi) Calculate the material price variance
- (a) 300,000 (F).
 - (b) 300,000 (A).
 - (c) 900,000 (F).
 - (d) 900,000 (A).
- (xvii) Calculate the material usage variance
- (a) 3,000 kg (A).
 - (b) 3,000 kg (F).
 - (c) 2,625 kg (A).
 - (d) 2,625 kg (F).

- (xviii) Which of the following is **NOT** a role of the Capital Markets Authority?
- (a) Mobilization of savings.
 - (b) Provision of alternative long-term finance.
 - (c) Allocation of capital.
 - (d) Regulating commercial banks.
- (xix) When absorbed overheads are less than actual overheads, there is an:
- (a) under absorption.
 - (b) over absorption.
 - (c) over apportionment.
 - (d) over apportionment.
- (xx) The actual market price of a convertible stock will depend on all the following **EXCEPT** the:
- (a) price of straight debt.
 - (b) current conversion value.
 - (c) length of time before conversion may take place.
 - (d) coupon rate of interest.

SECTION B**Question 2**

- (a) Dot Cosmetics Ltd, located at Namanve, has been buying crude raw materials which are refined to produce three types of creams – Hair, Face and Feet. The cost of crude raw materials in the year 2007 was Shs 420 million and the refining department incurred processing costs of Shs 180 million.

The following data relates to the output and sales for the three products during the same year:

Product	Units of output	Sales	Additional processing costs
	Kg	Shs '000'	Shs '000'
Hair	620,000	400,000	24,000
Face	4,000,000	860,000	120,000
Feet	440,000	160,000	40,000

The company could have sold the products at the split-off point directly to other processors at a unit selling price of Shs 10,000, Shs 7,000 and Shs 32,000 respectively.

Required:

Compute the net profit earned for each product using the:

(i)	Output method.	(6 marks)
(ii)	Sales value method.	(7 marks)

- (b) Malindi Manufacturers Limited deals in the manufacture of detergents. The company's estimated annual demand for the period to 31 December 2008 for one of its main material, T used in the manufacture of liquid soap is 9,000 gallons. The material costs shs 4000 per gallon, the annual holding cost is 15% of the purchase price and the ordering costs are shs 5000 per order. The supplier has offered a discount of 5% if Malindi orders 12,000 gallons or more.

Required:

Advise Malindi Manufacturers Limited as to whether the discount offered is worthwhile.

(7 marks)
(Total 20 marks)

Question 3

- (a) Two companies A and B are listed on the Uganda Securities Exchange (USE). The market portfolio of each is 50%. The data below relates to these companies during 2007:

Company	A	B
Expected rate of return (%)	23	13
Standard deviation of return (%)	40	24

The correlation coefficient of A and B is 80%.

Required:

Calculate the:

- (i) expected rate of return of the market portfolio. **(3 marks)**
 - (ii) standard deviation of the market portfolio. **(7 marks)**
- (b) Kampala Kleys Limited had 6,000,000 ordinary shares selling at shs 2,800 per share by 31 December 2007. The company has just announced a rights issue to its existing shareholders of 1 new share for every 3 shares held at a price of shs 2,500. One of the shareholders, Makenzi owning 20,000 ordinary shares has protested to the decision of the rights issue arguing that the rights issue price is below the market value and thus will result into a loss in his personal wealth. Assume the actual market value of shares will equal to the theoretical ex rights price.

Required:

- (i) Determine the theoretical ex-rights price. **(3 marks)**
- (ii) Determine the value of the rights attached to each existing shareholder. **(3 marks)**
- (iii) What would be the effect on Makenzi's wealth if he does not take up the rights issue and all other shareholders exercise their rights? **(4 marks)**

(Total 20 marks)

Question 4

- (a) Trinity Industries Ltd, a manufacturing company in Jinja Municipality, has been in business since 2004. The following data relates to budgeted expenses for production of 10,000 units of one of its numerous products.

Particulars	Cost per unit
	Shs '000'
Materials	7,000
Labour	2,000
Variable factor overheads	4,000
Fixed factor overheads (Shs 10 million)	1,000
Variable expenses (direct)	500
Selling expenses (10% fixed)	300
Distribution expenses (20% fixed)	500
Administrative expenses (Shs 5 million)	500
Total cost per unit	<u>15,800</u>

Required:

Prepare a flexed budget for the production of 8,000 units.

(12 marks)

- (b) Pembe Limited produces four components W, X, Y and Z. Production and the expected cost of production for the Quarter to 30 June 2008 are as follows:

	W	X	Y
Production (units)	1,000	2,500	4,000
Direct Materials per unit (shs)	8,000	10,000	4,000
Direct labour per unit (shs)	16,000	18,000	8,000

Variable production overheads are 80% of the direct labour cost.

Directly attributable fixed costs per annum are as follows:

	Shs '000'
Incurred as a direct consequence of producing W	2,000
Incurred as a direct consequence of producing X	4,000
Incurred as a direct consequence of producing Y	3,000
Incurred as a direct consequence of producing Z	<u>5,000</u>
	<u>14,000</u>

A survey on the market reveals that a subcontractor can supply the same components at the following prices:

Component	Unit Price (Shs)
W	34,000
X	48,000
Y	23,000
Z	32,000

Required:

Advise as to whether Pembe Ltd should make or buy the components.

(8 marks)

(Total 20 marks)

Question 5

Ibanda Initiatives Ltd manufactures two products: M and B using the same equipment and similar processes. An extract of the production data for these products in one period is shown below:

Products	M	B
Quantity Produced (units)	5,000	7,000
Direct labour hours per unit	1	2
Machine hours per unit	3	1
Set-ups in the period	10	40
Orders handled in the period	15	60

Overhead costs	Shs
Relating to machine activity	220,000
Relating to production run set-ups	20,000
Relating to handling of orders	45,000
	<u>285,000</u>

Required:

Calculate the production overheads to be absorbed by one unit of each of the products using the following costing methods;

- A traditional costing approach using a direct labour hour rate to absorb overheads.
- An activity based costing approach, using suitable cost drivers to trace overheads to products.

(10 marks)

(10 marks)

(Total 20 marks)

SECTION C

Question 6

Budgeting has been used by many organizations as a planning tool. The Managing Director (MD) of Quent Limited has not embraced budgeting in his company for the last 2 years arguing that budgets can never be fully achieved after all and are time consuming. As a consultant working with Expert Consultants Limited; the Board of Directors of Quent Limited has sought your services to enable them sensitize the MD about budgets.

Required:

Write a report to the Board of Directors of Quent Limited explaining the:

- (a) role of budgeting.
- (b) budgeting process.
- (c) role of a budget committee.

(20 marks)

Question 7

- (a) Kent Bank Limited has been facing liquidity difficulties in recent years. As the Finance Manager of Kent Bank Ltd and from your research of available sources of finance, you suggest to the board of directors to float a corporate bond to raise finance for long term lending.

Required:

Describe the process you would go through to issue a bond on the securities exchange.

(9 marks)

- (b) Outline any **five** listing rules of the Uganda Securities Exchange.

(5 marks)

- (c) Explain how one can become a shareholder in a listed company?

(6 Marks)

(Total 20 marks)

Table 1: PVIF- Present Value of Shs 1 Due at the End of n Periods

Period	9%	10%	11%	12%	13%	14%	15%	16%	18%	20%
1	0.917	0.909	0.901	0.893	0.885	0.877	0.870	0.862	0.847	0.833
2	0.842	0.826	0.812	0.797	0.783	0.769	0.756	0.743	0.718	0.694
3	0.772	0.751	0.731	0.712	0.693	0.675	0.658	0.641	0.609	0.579
4	0.708	0.683	0.659	0.636	0.613	0.592	0.572	0.552	0.516	0.482
5	0.650	0.621	0.593	0.567	0.543	0.519	0.497	0.476	0.437	0.402
6	0.596	0.564	0.535	0.507	0.480	0.456	0.432	0.410	0.370	0.335
7	0.547	0.513	0.482	0.452	0.425	0.400	0.376	0.354	0.314	0.279
8	0.502	0.467	0.434	0.404	0.376	0.351	0.327	0.305	0.266	0.233
9	0.460	0.424	0.391	0.361	0.333	0.308	0.284	0.263	0.225	0.194
10	0.422	0.386	0.352	0.322	0.295	0.270	0.247	0.227	0.191	0.162
11	0.388	0.350	0.317	0.287	0.261	0.237	0.215	0.195	0.162	0.135
12	0.356	0.319	0.286	0.257	0.231	0.208	0.187	0.168	0.137	0.112
13	0.326	0.290	0.258	0.229	0.204	0.182	0.163	0.145	0.116	0.093
14	0.299	0.263	0.232	0.205	0.181	0.160	0.141	0.125	0.099	0.078
15	0.275	0.239	0.209	0.183	0.160	0.140	0.123	0.108	0.084	0.065

TABLE 2: PVAF - Present Value of an Annuity of Shs 1 per Period for n Periods

Period	9%	10%	11%	12%	13%	14%	15%	16%	18%	20%
1	0.917	0.909	0.901	0.893	0.885	0.877	0.870	0.862	0.847	0.833
2	1.759	1.736	1.713	1.690	1.668	1.647	1.626	1.605	1.566	1.528
3	2.531	2.487	2.444	2.402	2.361	2.322	2.283	2.246	2.174	2.106
4	3.240	3.170	3.102	3.037	2.974	2.914	2.855	2.798	2.690	2.589
5	3.890	3.791	3.696	3.605	3.517	3.433	3.352	3.274	3.127	2.991
6	4.486	4.355	4.231	4.111	3.998	3.889	3.784	3.685	3.498	3.326
7	5.033	4.868	4.712	4.564	4.423	4.288	4.160	4.039	3.812	3.605
8	5.535	5.335	5.146	4.968	4.799	4.639	4.487	4.344	4.078	3.837
9	5.995	5.759	5.537	5.328	5.132	4.946	4.772	4.607	4.303	4.031
10	6.418	6.145	5.889	5.650	5.426	5.216	5.019	4.833	4.494	4.192
11	6.805	6.495	6.207	5.938	5.687	5.453	5.234	5.029	4.656	4.327
12	7.161	6.814	6.492	6.194	5.918	5.660	5.421	5.197	4.793	4.439
13	7.487	7.103	6.750	6.424	6.122	5.842	5.583	5.342	4.910	4.533
14	7.786	7.367	6.982	6.628	6.302	6.002	5.724	5.468	5.008	4.611
15	8.061	7.606	7.191	6.811	6.462	6.142	5.847	5.575	5.092	4.675