

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA (U) EXAMINATIONS

LEVEL ONE

MANAGEMENT ACCOUNTING AND FINANCE – PAPER 6

WEDNESDAY, 10 DECEMBER 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.

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SECTION A

Question 1

- (i) Which of the following is a suitable basis of apportioning office rent and rates?
 - (a) Floor area.
 - (b) Value of office equipment.
 - (c) Number of employees.
 - (d) Office insurance.
- (ii) The following are qualitative factors that influence the make or buy decisions **EXCEPT**:
 - (a) quality of goods supplied by the supplier.
 - (b) uninterrupted supply by supplier.
 - (c) adverse effect on labour relations.
 - (d) size of goods supplied by the supplier.
- (iii) The level of planning for which line managers are generally responsible is:
 - (a) strategic.
 - (b) tactical.
 - (c) operational.
 - (d) managerial.
- (iv) Over-absorbed overheads under absorption costing are:
 - (a) absorbed overheads in excess of actual overheads.
 - (b) absorbed overheads in excess of budgeted overheads.
 - (c) actual overheads in excess of absorbed overheads.
 - (d) actual overheads in excess of budgeted overheads.
- (v) The following are the causes of labour efficiency variance **EXCEPT**:
 - (a) emergency purchases.
 - (b) ineffective supervision.
 - (c) poor quality materials.
 - (d) poor working conditions.
- (vi) Which of the following does **NOT** affect the level of working capital?
 - (a) Level of inventory.
 - (b) Debtors' collection period.
 - (c) Amortisation of leasehold.
 - (d) Outstanding electricity bills.

- (vii) A product that emerges incidentally under the production process is referred to as:
- (a) joint product.
 - (b) by-product.
 - (c) finished product.
 - (d) emergent product.
- (viii) The actual market price of convertible stock will depend on the following **EXCEPT** the:
- (a) price of straight preference shares.
 - (b) length of time before conversion takes place.
 - (c) market's expectation.
 - (d) current conversion value.

Use the following information to answer questions (ix) – (x):

Big Ways Ltd produces a product which has a constant monthly demand of 5,000 units. Ordering cost is Shs 10,000 per order and holding cost is Shs 5,000.

- (ix) Calculate, in units, the economic order quantity (EOQ).
- (a) 400.
 - (b) 657.3.
 - (c) 866.4.
 - (d) 598.5.
- (x) Calculate the number of orders per year.
- (a) 366.2
 - (b) 400.1
 - (c) 164.3
 - (d) 185.4.
- (xi) Which of the following is **NOT** a reason for stock market listing?
- (a) Access to a wider pool of finance.
 - (b) Transfer of capital to other uses.
 - (c) Enhancement of the company's image.
 - (d) Accounting for stocks in the capital market.
- (xii) A flexible budget is a:
- (a) budget which shows variable production costs only.
 - (b) monthly budget which is changed to reflect the number of days in a month.
 - (c) budget updated halfway into the year to include actual results for the first half of the year.
 - (d) budget that shows abnormal gains.

- (xiii) Which of the following refers to cost drivers?
- (a) Factors that cause costs to increase.
 - (b) Costs that vary with production volume.
 - (c) Transaction based cost drivers.
 - (d) Absorption-based costs.
- (xiv) Which of the following should be treated as indirect labour in analyzing a company's cost structure?
- (a) Assembly workers in an assembling plant.
 - (b) Porters on a building project.
 - (c) Drivers in a transport company.
 - (d) Drivers in a Mobile Telephone Network company.
- (xv) The following refers to cost of capital **EXCEPT** the:
- (a) cost of funds raised and used by a firm.
 - (b) minimum return that a firm should make from its own investment.
 - (c) return that investors expect from an investment.
 - (d) cash flows expected from an investment.
- (xvi) Which of the following is an advantage of the Just-in-time (JIT), production system?
- (a) Reduction in inventory holding costs.
 - (b) Improved manufacturing lead time.
 - (c) Reduced labour productivity.
 - (d) Increased pilferage of inventories.
- (xvii) Which of the following refers to dividend cover?
- (a) The percentage of post tax earnings that are distributable as dividends.
 - (b) Number of times the actual dividend could be paid out of the current profits.
 - (c) The market's appraisal of the firm's dividend future prospects.
 - (d) The rate of growth in dividends.
- (xviii) Which of the following is **NOT** true about a rights issue of shares by a listed company?
- (a) The rights issue price can be at a discount to the market price.
 - (b) Relative rights are unaffected if shareholders exercise their rights.
 - (c) Rights issues do not require a prospectus.
 - (d) If shareholders do not take up the rights, the rights lapse.

- (xix) Which of the following is **NOT** true after a stock split?
- (a) The market price per share is reduced.
 - (b) The number of outstanding shares is increased.
 - (c) Retained earnings are changed.
 - (d) Proportional ownership remains unchanged.
- (xx) Micro Ltd has in issue 9% debentures of Shs 100 each redeemable in exactly 10 years' time at a premium of 5%. The current required return on debentures of this type is 11%. What is the current price of the debenture?
- (a) Shs 180.
 - (b) Shs 270.
 - (c) Shs 90.
 - (d) Shs 190.

SECTION B**Question 2**

Bluex Limited is a manufacturing company dealing in detergents. The existing cost structure for manufacturing a unit of one of its products Blulue is as follows:

	Shs
Direct Materials 4kg @ at Shs 2,000	8,000
Direct Labour 1 hour @ Shs 4,000	4,000
Variable Overheads 1 hour @ Shs 2,000	<u>2,000</u>
	<u>14,000</u>

Based on the above cost per unit, the following budgeted income statement for the period ended 30 September 2008 for estimated production and sales of 1,000 units was prepared.

	Shs '000'	Shs '000'
Sales (1,000 units @Shs 20,000)		20,000
Variable Cost of Sales:		
Direct Materials (4000 kg @ Shs 2,000	8,000	
Direct Labour (1000 hrs @ Shs 4,000	4,000	
Variable Overheads (1000 hrs @ Shs 2,000	<u>2,000</u>	<u>14,000</u>
Budgeted contribution		6,000
Fixed costs		<u>4,000</u>
Budgeted Net profit		<u>2,000</u>

At the end of the period, the following income statement based on actual production and sales of 800 units was presented.

	Shs '000'	Shs '000'
Sales (800 units @ Shs 23,000)		18,400
Variable Cost of Sales:		
Direct Materials (3,000 kg @ Shs 1,800)	5,400	
Direct labour (800 hrs @ Shs 4,500)	3,600	
Variable overheads (800 hrs @ Shs 1,800	<u>1,440</u>	<u>10,440</u>
Contribution		7,960
Fixed costs		<u>4,000</u>
Net profit		<u>3,960</u>

Management was pleased that fewer units than budgeted were produced and sold resulting into a higher actual net profit than budgeted.

Required:

- (a) Calculate the following variances:
- (i) Materials price. (3 Marks)
 - (ii) Materials usage. (3 marks)
 - (iii) Labour rate. (3 Marks)
 - (iv) Labour efficiency. (3 marks)
 - (v) Variable overhead expenditure. (2 Marks)
 - (vi) Variable overhead efficiency. (2 Marks)

- (b) Explain **four** causes for any negative variance obtained. (4 marks)
- (Total 20 Marks)**

Question 3

- (a) What main features of process costing distinguish it from other costing methods? (4 marks)
- (b) Soda Industries Ltd manufacture soft drinks using process costing to account for costs. Materials are introduced at the start of the process while conversion costs are applied uniformly through out the process. The following data relate to the period just ended:

Opening work in progress was 900 units at the following degrees of completion:

Materials, 100% complete at Shs 15,000,000
 Conversion costs, 60% complete at Shs 10,000,000

Materials introduced were 9,100 units valued at Shs 50,460,000
 Conversion costs Shs 40,920,000

Closing work in progress was 1000 units at the following stages of completion:

Materials 100%
 Conversion costs 80%

Units transferred to the finished goods inventory were 7,800.

Required:

Using the FIFO method of valuation:

- (i) Calculate the equivalent units of production. (2 marks)
- (ii) Calculate the cost of output transferred to finished goods inventory. (6 marks)
- (iii) Calculate closing work in progress. (3 marks)
- (iv) Prepare the process account. (5 marks)

(Total 20 marks)

Question 4

- (a) Despite its usefulness in profit planning, cost control and decision making, cost-volume-profit (C-V-P) analysis lies on premises that are unrealistic.

Required:

Outline **four** assumptions underlying C-V-P analysis.

(4 marks)

- (b) Maji Maji Enterprises Limited deals in the bottling of drinking water. The Management Accountant has submitted the following statement for the period ended 31 October 2008.

	Shs '000'	Shs '000'
Sales (4,000 units)		40,000
Less cost:		
Direct Materials	14,000	
Direct Wages	10,000	
Direct Expenses	6,000	
Fixed Overheads	<u>4,000</u>	<u>34,000</u>
Net Profit		<u>6,000</u>

Management is in the process of preparing plans for the year 2009.

Required:

Compute the following to provide sufficient information to management to support their planning process:

- (i) The current break even sales volume. **(3 marks)**
- (ii) The margin of safety at the current level. **(2 marks)**
- (iii) Management plan for a net profit of Shs 10 million over the next period. What sales volume will make management achieve that level of profit? **(3 marks)**
- (iv) If sales volume and price are expected to remain the same, but management still plans to earn net profit of Shs 10 million, by what percentage should they reduce variable costs? **(4 marks)**
- (v) If management double output, how much net profit will they earn? **(4 marks)**

(Total 20 marks)

Question 5

- (a) Briefly explain the term “liquidity management” as used in working capital management.

(2 marks)

- (b) The Management Accountant of Kwik Limited, a manufacturing company, is analysing the following data for the year 2008 as a working capital requirement plan for the year ending 31 December 2008.

Annual turnover	Shs 180 million
Costs as percentage of sales:	
Direct materials	35%
Direct labour	30%
Variable overheads	7%
Fixed overheads	10%
Selling and distribution	5%

Additional information:

On average:

Debtors take 2.5 months before payment.

Raw materials are in stock for 3 months.

Work-in-progress represents 2.5 months of 50% of produced goods.

Finished goods represent one month's production.

Credit is taken as follows:

Direct materials	2.5 months
Direct labour	2 weeks
Variable overheads	1.5 months
Fixed overheads	1.5 months
Selling and distribution	1 month

Work-in-progress and finished goods are valued at material, labour and variable expense costs.

Assuming the labour force is paid for 50 weeks per year and that direct materials are allocated to work-in-progress when production starts.

Required:

Compute the:

- (i) annual costs incurred. **(3 marks)**
- (ii) average value of current assets. **(8 marks)**
- (iii) average value of current liabilities. **(5 marks)**
- (iv) working capital requirements of Kwik Limited. **(2 marks)**

(Total 20 marks)

SECTION C

Question 6

- (a) Various groups of stakeholders in a firm may have divergent interests. Identify the various stakeholders of a firm and briefly explain the interests of each.
(8 marks)
- (b) Discuss any **five** non-financial objectives that might affect a firm's financial objectives.
(5 marks)
- (c) Differences between financial accounting and management accounting arise in a manner in which the common source of data is analysed. Discuss.
(7 marks)
- (Total 20 marks)

Question 7

- (a) (i) Define the term "payback period" as an investment appraisal technique.
(1 mark)
- (ii) Outline **four** merits and **four** demerits of the payback period.
(8 marks)
- (b) Compare the Internal Rate of Return (IRR) and the Net Present Value (NPV) methods of investment appraisal.
(6 marks)
- (c) Explain the circumstances under which the IRR and the NPV methods would give conflicting rankings as to which project to choose.
(5 marks)
- (Total 20 marks)