

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

MANAGEMENT ACCOUNTING & FINANCE– PAPER 6

THURSDAY, 29 NOVEMBER 2012

INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours 15 minutes**.
The first 15 minutes of this examination have been designated for reading time. You may not start to write your answer during this time.
2. This examination contains Sections **A**, **B** and **C**.
3. Section **A** is bound separately from Sections **B** and **C**.
4. Attempt all the 20 multiple-choice questions in Section **A**. Each question carries 1 mark.
5. Attempt **three** of the **four** questions in Section **B**. Each question carries 20 marks.
6. Attempt **one** of the **two** questions in Section **C**. Each question carries 20 marks.
7. Write your answer to each question on a fresh page in your answer booklet.
8. Tables are provided on page 7.
9. Please, read further instructions on the question paper and answer book before attempting any question.

SECTION B

Attempt three of the four questions in this section.

Question 2

- (a) Ham Ltd manufactures paint which passes through one process. Materials are always added at the start of the process. On 1 October 2012, there was opening work in progress of 12,000 units which was 60% complete with the following costs:

	Shs '000'
Materials	48,000
Conversion costs	30,600

During the month of October, 32,000 units of materials valued at Shs 128 million were introduced to the process. Conversion costs amounting to Shs 150 million were incurred.

At the end of October 2012, closing work in progress amounted to 8,000 units and was 75% complete with respect to conversion costs.

Required:

Prepare the:

- (i) statement of equivalent production. **(4 marks)**
 - (ii) statement of cost per unit. **(2 marks)**
 - (iii) statement of total cost. **(2 marks)**
 - (iv) process account. **(2 marks)**
- (b) Shelam Engineering Ltd won a contract to construct a shopping mall along Entebbe road. Contract works commenced on 1 July 2011. Costs to 31 December 2011 when the company's accounting year ended were derived from the following information:

	Shs million
Direct materials from the store	360
Materials returned to the store	8
Direct labour	310
Plant issued at book value 1 July 2011	320
Written down value of plant 31 December 2011	480
Materials on site 31 December 2011	32
Overhead costs	40

At 31 December 2011, certificates had been issued for work valued at Shs 1 billion and the contractee had made progress payments of Shs 900 million. The company has calculated that more work has been done since

the last certificates were issued and the cost of work done but not yet certified is Shs 160 million.

Required:

- (i) Prepare the contract account. (5 marks)
 - (ii) Calculate the profit on the contract. (3 marks)
 - (iii) Why is it desirable for contracting companies to include some profit on uncompleted contracts? (2 marks)
- (Total 20 marks)**

Question 3

- (a) Falcon Ltd is considering the purchase of a new machine that is expected to save labour on an existing project. The estimated data for the two machines available on the market are as follows:

	Machine A	Machine B
	Shs '000'	Shs '000'
Initial cost	120,000	120,000
Residual value (year 5)	20,000	30,000
Annual labour cost savings:		
Year	Shs '000'	Shs '000'
1	40,000	20,000
2	40,000	30,000
3	40,000	50,000
4	20,000	70,000
5	20,000	20,000

Falcon Ltd's cost of capital is 10% per annum.

Required:

Advise Falcon Ltd on which machine it should select under each of the following methods:

- (i) net present value. (6 marks)
 - (ii) internal rate of return. (9 marks)
- (b) On 1 November 2012, FTC Ltd had 1,000,000 ordinary shares of Shs 1,000 in issue, which had a market price of Shs 2,100 per share. The company decided to make a rights issue, and offered its shareholders the right to subscribe for one new share at Shs 1,500 each for every four shares

already held. After the announcement of the issue, the share price fell to Shs 1,950 but by the time just prior to the issue being made, it had recovered to Shs 2,000 per share.

Required:

Calculate the ex-rights price of the share.

(5 marks)

(Total 20 marks)

Question 4

- (a) ABC Ltd has provided the following information regarding its operations for the last financial year:

	Shs '000'
Purchase of raw materials	67,000
Usage of raw materials	65,000
Revenue from sale of finished goods (all on credit)	250,000
Cost of sale of finished goods	180,000
Average payables	14,000
Average raw material inventory	12,000
Average work in progress	10,000
Average finished goods inventory	21,000
Average receivables	47,000

Required:

Calculate the operating cycle of ABC Ltd.

(11 marks)

- (b) Forever Ltd currently expects sales of Shs 50 million a month. Variable costs of sales are Shs 40 million a month (all payable in the month of sale). It is estimated that if the credit period allowed to trade debtors were increased from 30 days to 60 days, sales volume would increase by 20%. All customers would be expected to take advantage of the extended credit.

Required:

- (i) If the cost of capital is 12½% a year, is the extension of the credit period justifiable in financial terms?

(6 marks)

- (ii) What factors should be considered by management in the formulation of a policy for credit control?

(3 marks)

(Total 20 marks)

Question 5

- (a) The following information relates to XYZ Ltd which produces a single product, Y:

	Shs (per unit)
Selling price	6,000
Variable production cost	1,200
Variable selling cost	4,000
Fixed production cost	400
Fixed selling cost	800

Budgeted production and sales for the year are 10,000 units of product Y.

Required:

- (i) Calculate the company's break-even point. (4 marks)
- (ii) If the variable production cost per unit and selling price per unit increase by 10% and fixed costs by 25%; determine the new break-even point. (5 marks)
- (b) YWEES (U) Ltd manufactures three types of toothpaste: Sira, Vaco and Mebo. The following is the company's income statement for the period ending 31 October 2012:

	Sira	Vaco	Mebo	Total
	Shs '000'	Shs '000'	Shs '000'	Shs '000'
Sales	75,000	90,000	80,000	245,000
Variable costs	<u>(45,000)</u>	<u>(86,000)</u>	<u>(55,000)</u>	<u>(186,000)</u>
Contribution	30,000	4,000	25,000	59,000
Fixed costs	<u>(8,500)</u>	<u>(9,000)</u>	<u>(10,000)</u>	<u>(27,500)</u>
Profit / (loss)	<u>21,500</u>	<u>(5,000)</u>	<u>15,000</u>	<u>31,500</u>

The company is concerned about its poor performance and is considering whether or not to cease selling Vaco. It is felt that selling prices cannot be raised or lowered. If the production of Vaco is suspended, Shs 3 million of fixed costs will be avoided because the cost is directly related to Vaco production. Assume that Vaco cannot be substituted by any other product and that investment in assets cannot be reduced if this product is dropped. All other fixed costs are constant.

Required:

- (i) Advise YWEES (U) Ltd whether it should stop the production of Vaco or not.
(6 marks)
 - (ii) Identify the steps that should be followed in making a product mix decision in presence of a limiting factor.
(4 marks)
- (Total 20 marks)**

SECTION C

Attempt one of the two questions in this section.

Question 6

- (a) Discuss the advantages and disadvantages of using absorption costing method when dealing with costs of internal services.
(5 marks)
 - (b) Define each of the following terms and highlight how they are accounted for.
 - (i) Scrap. (2 marks)
 - (ii) Spoilage. (1 mark)
 - (iii) Defectives. (2 marks)
 - (c) Explain the fundamental differences between time basis and piecework method of remunerating labour and give scenarios where each of the methods can be used.
(10 marks)
- (Total 20 marks)**

Question 7

- (a) (i) Distinguish between risk and return.
(2 marks)
 - (ii) Distinguish a perpetual bond from a zero coupon bond.
(2 marks)
 - (b) Outline the role of the Uganda Securities Exchange.
(5 marks)
 - (c) Discuss the benefits of budgeting and budget performance.
(6 marks)
 - (d) Explain how inflation in a given economy affects the rate of return on an investment.
(5 marks)
- (Total 20 marks)**

Present value interest factor of \$1 per period at i% for n periods, PVIFA (i,n).												
Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826	0.812	0.797
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751	0.731	0.712
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683	0.659	0.636
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621	0.593	0.567
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564	0.535	0.507
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513	0.482	0.452
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467	0.434	0.404
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424	0.391	0.361
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386	0.352	0.322
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350	0.317	0.287
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319	0.286	0.257
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290	0.258	0.229
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263	0.232	0.205
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239	0.209	0.183

	13%	14%	15%	16%	17%	18%	19%	20%	21%	22%	23%	24%
1	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833	0.826	0.820	0.813	0.806
2	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694	0.683	0.672	0.661	0.650
3	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579	0.564	0.551	0.537	0.524
4	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482	0.467	0.451	0.437	0.423
5	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402	0.386	0.370	0.355	0.341
6	0.480	0.456	0.432	0.410	0.390	0.370	0.352	0.335	0.319	0.303	0.289	0.275
7	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279	0.263	0.249	0.235	0.222
8	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233	0.218	0.204	0.191	0.179
9	0.333	0.308	0.284	0.263	0.243	0.225	0.209	0.194	0.180	0.167	0.155	0.144
10	0.295	0.270	0.247	0.227	0.208	0.191	0.176	0.162	0.149	0.137	0.126	0.116
11	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.135	0.123	0.112	0.103	0.094
12	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112	0.102	0.092	0.083	0.076
13	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093	0.084	0.075	0.068	0.061
14	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078	0.069	0.062	0.055	0.049
15	0.160	0.140	0.123	0.108	0.095	0.084	0.074	0.065	0.057	0.051	0.045	0.040