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CPA PART I SECTION 2

MANAGEMENT ACCOUNTING

WEDNESDAY: 22 May 2019.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

QUESTION ONE

- (a) Financial accounting is the branch of accounting that organises accounting information for presentation to interested parties outside the business.

Management accounting on the other hand uses information provided by both financial accounting and cost accounting with the purpose of providing information to managers for policy formulation, planning and decision making.

Required:

With regard to the above statement, describe four differences between management accounting and financial accounting. (8 marks)

- (b) (i) Highlight four advantages of regression method of cost estimation. (4 marks)

- (ii) The following data relates to the total costs incurred by Makini Garage Ltd. in a period of eight weeks:

Week	Number of cars repaired	Total costs incurred
		Sh. "000"
1	90	5,200
2	100	6,000
3	120	6,200
4	150	3,530
5	160	3,850
6	220	4,300
7	300	5,870
8	340	7,150

Required:

Using regression analysis method, formulate an equation in the form of $Y = a + bx$ that could be used to estimate the total costs incurred. (8 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Baraka Distributors Ltd. purchases and sells a single product branded "M".

The following information is provided for product M:

- Annual demand for the product is 30,000 units.
- The ordering cost per order is Sh.2,500.
- The holding cost is expressed as 20% of the purchase price.
- A new supplier in the market has presented Baraka Distributors Ltd. with a proposal for the following range of quantities and respective price per unit:

Range of quantities	Price (Sh.)
1 – 3,000	21
3,001 – 5,000	19
5,001 – 7,000	17
7,001 – 9,000	15.50
9,001 – 10,000	13

Required:

Advise the management of Baraka Distributors Ltd. on the range of quantities to purchase.

(8 marks)

- (b) Pendo Ltd. makes three types of metallic doors; security, house and office which are made from the same basic materials (steel bars and iron sheets).

The standard unit costs and selling prices of the three types of doors are as provided below:

	Door type		
	Security Sh.	House Sh.	Office Sh.
Direct materials:			
Steel bars	3,500	1,960	4,200
Iron sheets	10,920	11,760	10,500
Direct labour:			
Machining	2,100	1,400	2,660
Spraying	980	560	840
Unit selling price	24,500	26,040	26,600

Additional information:

1. The sales for the month of December 2018 are as follows:

Door type	Units
Security	200
House	200
Office	160

2. Owing to an industrial dispute, suppliers of the iron sheets have estimated that only 5,124 square metres of iron sheets are available for the period. The iron sheets cost Sh.1,000 per square metre.

Required:

Advise the management of Pendo Ltd. on the most profitable mix of the three types of doors.

(12 marks)

(Total: 20 marks)

QUESTION THREE

- (a) The choice of an overhead absorption base is a matter of personal judgement.

Explain the extent to which you agree or disagree with the above statement.

(4 marks)

- (b) Machakato Ltd. makes three main products using the same equipment. Total overheads amounting to Sh.720,000 were charged for the last quarter of the financial year ended 31 December 2018.

Details of the three products for the months of September 2018 to December 2018 are as follows:

	Product		
	A	B	C
Labour hours per unit	2	3	1
Machine hours per unit	3	2	5
Material cost per unit (Sh.)	45	28	52
Volume (Units)	1,500	2,400	11,000

Additional information:

- Direct labour costs are Sh.14 per hour.
- Production overheads are absorbed on a material cost percentage basis.
- The machine rate for the period under consideration is Sh.56 per machine hour.
- Further analysis shows that the total production overheads could be apportioned as follows:
 - Cost relating to set-ups 20%
 - Cost relating to materials movement 35%
 - Cost relating to inspection 45%

5. The following activity volumes are associated with the product line for the period:

	Number of set-ups	Total activities for the period	
		Number of material movements	Number of inspections
Product: A	78	12	140
B	112	21	170
C	<u>460</u>	<u>82</u>	<u>640</u>
	<u>650</u>	<u>115</u>	<u>950</u>

Required:

Cost per unit for each product using:

- (i) Traditional method. (8 marks)
- (ii) Activity Based Costing (ABC). (8 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Highlight four purposes of costs classification in an organisation. (4 marks)
- (b) The following information was obtained from the books of Mambo Yote Ltd., a manufacturing company based in a coastal town for the month of April 2019:

Opening inventory (Units)	50,000
Valuation	Sh.
Materials	250,000
Labour	100,000
Overheads	250,000
Units introduced	200,000
Cost incurred	Sh.
Materials	1,000,000
Wages	750,000
Overheads	700,000

Additional information:

- During the month of April 2019, 150,000 units were completed and transferred to process II.
- Closing inventory amounted to 100,000 units with the following degrees of completion:

Materials	100%
Labour	50%
Overheads	40%
- Due to the nature of the production process, no losses are anticipated.
- The company uses the average cost method to value work-in-progress.

Required:

- (i) Statement of equivalent production. (4 marks)
- (ii) Statement of apportionment of cost. (6 marks)
- (iii) Process I account. (6 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Limu Processing Company Ltd. manufactures a standard product branded "LM". Currently, it is operating on a normal activity level of 70% with an output of 6,300 units.

The sales director believes that a realistic forecast for the next budget period would be at an activity level of 50%.

The following data relates to the forecasted costs of the product for different levels of activity:

	60%	70%	80%
	Sh.	Sh.	Sh.
Direct materials	151,200	176,400	201,600
Direct wages	64,800	75,600	86,400
Production overheads	150,400	164,800	179,200
Administration overheads	126,000	126,000	126,000
Selling and distribution overheads	<u>169,200</u>	<u>176,400</u>	<u>183,600</u>
Total cost	<u>661,600</u>	<u>719,200</u>	<u>776,800</u>

Profit is 20% of selling price.

Required:

- (i) Flexible budget based on a 50% level of activity. (7 marks)
- (ii) State three problems which might arise from such a change in the level of activity. (3 marks)
- (b) Biashara Ltd. uses standard costing. The following information relates to actual results for the period ended 30 April 2019:

Units produced	7,200
	Sh.
Materials used (420kgs)	8,450
Labour costs (9,100 hours)	35,280
Various overheads	34,200
Fixed costs	28,500
Direct material price variance	370 (favourable)
Direct material usage variance	252 (favourable)
Direct labour rate variance	1,120 (favourable)
Direct labour efficiency variance	1,040 (favourable)
Variable overhead expenditure variance	2,350 (adverse)
Variance overhead efficiency variance	910 (favourable)
Fixed overhead variance	500 (adverse)

Additional information:

- The standard cost card and the budget for the period were misplaced and could not be recovered.
- The accountant recalls that the budgeted output was 7,000 units.

Required:

Using variance analysis, derive the following:

- (i) Standard cost card for the period ended 30 April 2019. (5 marks)
- (ii) Budget for the period ended 30 April 2019. (5 marks)

(Total: 20 marks)