KASNEB

CPA PART I SECTION 2

MANAGEMENT ACCOUNTING

WEDNESDAY: 23 November 2016. **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) Describe six skills that a management accountant should possess. (6 marks)

(b) Summarise four perspectives which the balanced scorecard focuses on. (4 marks)

(c) The production manager of Tamuh Sugar Company is concerned about the apparent fluctuations in efficiency and work done by employees which are related to the volume. A twelve week research was undertaken and the following were the outcomes:

Week	Machine hours	Indirect labour cost Sh.
1	68	1,190
2	88	1,211
3	62	1,004
4	72	917
5	60	770
6	96	1,456
7	78	1,180
8	46	710
9	82	1,316
10	94	1,032
11	68	752
12	48	963

Required:
Using the ordinary least squares (OLS) method:

(i) Formulate the cost function for the above relationship. (8 marks)

(ii) Compute the indirect labour cost associated with 120 machine hours. (2 marks)
(Total: 20 marks)

QUESTION TWO

(a) In the context of a Just-In-Time (JIT) inventory system, explain the following terms:

(i) Backflush costing. (2 marks)

(ii) Batch sizes of one unit. (2 marks)

(b) ALZ Ltd. operates a standard overhead absorption costing system. The standard fixed overhead rate per hour is Sh.25. The following data relate to the month of October 2016:

Actual hours worked	8,250
Budgeted hours	9,000
Standard hours of actual production	7,800
Actual fixed overheads expenditure (Sh.)	211,000

Required:
For the month of October 2016, compute:

(i) The fixed overheads volume variance. (2 months)

(ii) The fixed overheads expenditure variance. (2 months)

(c) Exam-Companion Academy (ECA) offers expert training to candidates on four subjects. The budget for the financial year ending 30 June 2017 is as follows:

	Subject area			
	Accounting	**Taxation**	**Auditing**	**Economics**
Expected training hours	2,500	3,000	3,500	1,000
Charge per hour (Sh.)	400	500	450	350
Variable cost per hour (Sh.)	100	150	90	100

The fixed costs for the year are expected to be Sh.1,986,000.

Required:

(i) Assuming the above mix of training hours, advise the management on total number of hours required to break-even. (5 marks)

(ii) The contribution from each subject and in total at break-even. (4 marks)

(iii) Total hours required to earn a profit of Sh.1,324,000. (3 marks)

(Total: 20 marks)

QUESTION THREE

(a) Outline four causes of labour turnover in an organisation. (4 marks)

(b) Describe four functions of a budget committee. (4 marks)

(c) Rabuor Ltd. manufactures a range of products. The company absorbs production overheads using a rate of 200% of the direct wages. This rate was calculated from the following budgeted figures:

	Sh."000"
Variable production cost	6,400
Fixed production costs	9,600
Direct labour cost	8,000

The management is faced with the following decision making problems:

Problem 1

The normal selling price per unit of product EXEM is Sh.220 while the unit production cost is as follows:

	Sh.
Raw materials	80
Direct labour	40
Production overheads	80
	200

There is a possibility of supplying a special order for 2,000 units of product EXEM at Sh.160 each. If the order is accepted, the normal budgeted sales would not be affected and the company has the necessary capacity to produce the additional units.

Problem 2

The cost of making component BEE, which forms part of product WYE is given below:

	Sh.
Raw materials	40
Direct labour	80
Production overheads	160
	280

Component BEE could be bought from an outside supplier for Sh.200.

Fixed production costs will not be affected.

Required:

(i) Advise the management on whether to accept the special order under Problem 1. (6 marks)

(ii) Evaluate whether the company should continue to make component BEE or buy it from an outside supplier under Problem 2. (6 marks)

(Total: 20 marks)

QUESTION FOUR

Pwani Ltd. operates a chemical process which produces four different products namely; A, B, C and D from the input of one raw material. Budget information for the forthcoming financial year is as follows:

	Sh."000"
Raw materials cost	268
Initial processing cost	464

Product	Output in litres	Sales Sh."000"	Additional processing costs Sh."000"
A	400,000	768	160
B	90,000	232	128
C	5,000	32	-
D	9,000	240	8

Additional information:

1. The company's policy is to apportion the costs prior to the split-off point on a method based on net sales value.
2. The current intention is to sell product C without further processing but to process the other three products after the split-off.
3. The alternative strategy would be to sell all the four products at the split-off point without further processing. If this was to be done, the selling prices obtainable would be as follows:

Product	Price per litre (Sh.)
A	1.28
B	1.60
C	6.40
D	20.00

Required:

(a) Budgeted profit statement showing the profit or loss for each product and in total if the current intention is adopted. (10 marks)

(b) Determine the profit or loss by product and in total if the alternative strategy was to be adopted. (6 marks)

(c) Recommend what should be done and why assuming there is no more profitable alternative use for the plant. (4 marks)

(Total: 20 marks)

QUESTION FIVE

The following information has been extracted from the books of Wazi Enterprises Ltd., a company dealing with manufacture of plastic containers.

The sales budget for the first six months of the financial year ending 31 December 2016 was as follows:

Month	January	February	March	April	May	June
Sales (units)	10,000	12,000	14,000	15,000	15,000	16,000

Additional information:

1. Finished goods inventory at the end of each month is expected to be 20% of budgeted sales quantity for the following month.
2. Finished goods inventory was 2,700 units on 1 January 2016.
3. There would be no work in progress at the end of any month.
4. Each unit of finished product requires two types of raw materials as follows:
   Material X : 4 kgs at Sh.10 per kg
   Material Y: 6 kgs at Sh.15 per kg
5. Materials on hand on 1 January 2016 was 19,000 kgs of material X and 29,000 kgs of material Y.
6. Monthly closing stock of material is budgeted to be equal to half of the requirements of next month's production.
7. Budgeted direct labour hour per unit of finished product is ¾ hour.
8. Budgeted direct labour cost for the first quarter of the year 2016 is Sh.1,089,000.

9. Actual data for the quarter ended 31 March 2016 is as follows:
Actual production quantity: 40,000 units
Direct material cost (Purchase cost based on materials actually issued to production)
Material X: 165,000 kgs at Sh.10.20 per kg
Material Y: 238,000 kgs at Sh.15.10 per kg
Actual direct labour hours worked: 32,000 hours
Actual direct labour cost: Sh.1,312,000

Required:

(a) (i) Monthly production quantity for the quarter ended 31 March 2016. (4 marks)

(ii) Monthly raw material consumption quantity budget for the four months from January 2016 to April 2016. (4 marks)

(iii) Materials purchase quantity budget for the quarter ended 31 March 2016. (4 marks)

(b) Compute the following variances:

(i) Material price variance. (2 marks)

(ii) Material usage variance. (2 marks)

(iii) Direct labour rate variance. (2 marks)

(iv) Direct labour efficiency variance. (2 marks)

(Total: 20 marks)

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