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CPA PART I SECTION 2

MANAGEMENT ACCOUNTING

WEDNESDAY: 28 November 2018. **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) "A budgetary control system could prove successful only when certain conditions and essentials exist".

With reference to the above statement, highlight six conditions and essentials for an effective budgetary system. (6 marks)

(b) Nduro Ltd. has two production departments; MM and NN and two service departments; PP and QQ. For the month of August 2018, the budgeted hours and costs were as follows:

Department	Hours	Cost (Sh.)
MM	1,800	45,000
NN	5,400	54,000

Additional information:

1. The service department costs are apportioned to the production departments as follows:

	Department			
	MM	**NN**	**PP**	**QQ**
PP	50%	20%	-	30%
QQ	40%	40%	20%	-

2. The overheads of the production departments are absorbed into product cost using a rate per hour.
3. During the month of August 2018, the actual activity levels and costs were as follows:

Department	Hours	Costs (Sh.)
MM	1,980	43,200
NN	6,120	52,200
PP		10,800
QQ		7,200

Required:

(i) The overheads to be charged to the production departments. (8 marks)

(ii) The amount of under or over absorption in each production department. (6 marks)

(Total: 20 marks)

QUESTION TWO

(a) Explain four assumptions of break-even analysis. (8 marks)

(b) Kuni Limited are distributors of two cooking gas cylinders; "Meko" and "13C". "Meko" weighs 6 kgs while "13C" weighs 13 kgs.

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The following information relates to the company's projection for the year ending 30 June 2019:

Product "Meko"	**Sh."000"**
Sales (43,800 units)	49,056
Fixed costs	(9,811.2)
Variable costs	(29,433.6)
Operating profit	9,811.2
Product "13C"	
Sales (71,175 units)	142,350
Fixed costs	(79,716)
Variable costs	(42,705)
Operating profit	19,929

Required:

(i) Determine the break-even point of "meko" and "13C" in both units and shillings. (6 marks)

(ii) Given that customers refill "meko" three times for every two times they refill "13C", compute the composite unit contribution margin. (4 marks)

(iii) Determine the break-even sales in shillings assuming that "meko" and "13C" are normally purchased in the ratio of one to one. (2 marks)

(Total: 20 marks)

QUESTION THREE

(a) Kiz Ltd. manufactures a single product branded "zuri" whose standard cost card is given below:

		Sh.
Selling price per unit		100
Direct materials	7 kilogrammes at Sh.2 per kilogramme	14
Direct labour	2 hours at Sh.8 per hour	16
Fixed overheads	2 hours at Sh.16 per hour	32
Total cost		62

Additional information:

1. As at 1 October 2018, the opening balances for the cost ledgers were as follows:

	Sh.
Direct materials	15,000
Work-in-progress	120,000
Finished goods	72,000

2. The following transactions took place during the month of October 2018:

	Sh.
Direct material purchases	89,000
Materials issued to production	90,000
Direct labour paid	102,000
Indirect labour paid	56,000
Production overhead cost incurred	159,000
Sales (6,500 units)	650,000
Goods transferred to finished goods stock	385,000

3. As at 31 October 2018, closing stock balances were as follows:

	Sh.
Direct materials	14,000
Work-in-progress	135,000
Finished goods	54,000

Required:

(a) Direct materials control account. (3 marks)

(b) Work-in-progress control account. (5 marks)

(c) Finished goods control account. (4 marks)

(d) Production overheads control account. (4 marks)

(e) A statement showing profit or loss. (4 marks)

(Total: 20 marks)

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QUESTION FOUR

(a) Engtech Ltd. manufactures castings which are transferred to the machine shop of the same company at standard prices.

A standard costing system is applied. Basic standards in regard to materials stock are as follows:

1. Standard mixture 70% Ingredient Y
   30% Ingredient X

2. Standard prices Ingredient X Sh.480 per kg.
   Ingredient Y Sh.130 per kg.

3. Opening and closing stock of ingredients X and Y for the month of October 2018 are as follows:

   Opening stock Ingredient X 100 kgs
   Ingredient Y 60 kgs

   Closing stock Ingredient X 110 kgs
   Ingredient Y 50 kgs

4. Total purchases for ingredients X and Y are as follows:
   Ingredient X 300 kgs at Sh.146,500
   Ingredient Y 100 kgs at Sh.12,500

5. The mixtures melted amounted to 400 kgs while castings produced were 375 kgs.
6. Standard loss is 10% of input.

Required:

(i) Material price variances. (4 marks)

(ii) Material mix variances. (4 marks)

(iii) Material yield variances. (4 marks)

(b) The following information was obtained from the books of Brickmast Ltd., a company making bricks for sale to contractors in the construction industry:

1. Materials : M 1,800 tonnes at Sh.40 per ton.
   N Sh.45,640

2. Labour : Direct Sh.25,560
   Indirect Sh.8,640

3. Overheads: Works 25% of direct costs
   Office 20% of prime cost and works overhead cost

4. Sales Sh.7,400,000. Sales per brick amount to Sh.400.

5. Royalties are paid at the rate of Sh.0.5 per 1,000 bricks.

6. The production is in batches of 1,000 bricks.

7. Stock of finished bricks: Opening 800,000
   Closing 600,000

Required:

(i) Batch cost statement. (6 marks)

(ii) Profit per 1,000 bricks. (2 marks)

(Total: 20 marks)

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QUESTION FIVE

(a) Evaluate four benefits that might accrue to an organisation from using computers in cost and management accounting. (4 marks)

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

(c) (i) Explain the term "industrial engineering method" in relation to cost estimation. (3 marks)

(ii) Highlight three circumstances under which the use of industrial engineering method of cost estimation is appropriate. (3 marks)

(d) Production overhead is also known as factory overhead or manufacturing overhead.

With reference to the above statement, outline six examples of production overheads. (6 marks)

(Total: 20 marks)

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