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ATD LEVEL III

FUNDAMENTALS OF MANAGEMENT ACCOUNTING

MONDAY: 20 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) Describe four characteristics of a good labour remuneration system. (8 marks)
- (b) Bidii Enterprises applies an incentive scheme of labour remuneration.

The following data is provided for three employees:

Details	Jane	Peter	Anne
Time allowed per unit (Hours)	$\frac{1}{4}$	$\frac{1}{6}$	$\frac{1}{2}$
Units produced	474	684	175
Time taken (Hours)	78	72	80
Basic pay per hour (Sh.)	600	600	300
Rejected units	54	84	25

Additional information:

- Bonus is paid at 50% of the normal wage rate for every hour saved.
- No penalty is imposed on rejected output.

Required:

For each of the above employees, determine:

- (i) Bonus payable. (5 marks)
- (ii) Gross wages payable. (4 marks)
- (iii) Wages cost per unit made. (3 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Distinguish between “period costs” and “irrelevant costs”. (4 marks)

- (b) AMC Ltd. manufactures three products namely; A, B and C. The processes by which they are manufactured are independent of one another and the sales of any one product are in no way affected by the prices or volume of sales of the other products.

The company’s budgeted income statement is as follows:

Details	Product		
	A Sh.	B Sh.	C Sh.
Sales	30,000	20,000	150,000
Production cost:			
Variable	(16,000)	(8,000)	(96,000)
Apportioned fixed	<u>(2,000)</u>	<u>(6,000)</u>	<u>(32,000)</u>
Gross profit	12,000	6,000	22,000
Selling costs:			
Variable	(5,400)	(5,200)	(5,400)
Apportioned fixed	<u>(1,400)</u>	<u>(1,400)</u>	<u>(1,200)</u>
Net profit/(loss)	<u>5,200</u>	<u>(600)</u>	<u>15,400</u>

Required:

Advise the management of AMC Ltd. on whether Product B should be discontinued.

(8 marks)

- (c) Corneril Ltd. has a weekly demand of 16 units of Product Zed. The unit cost of Product Zed is Sh.55 while fixed cost per order is Sh.4,400.
Corneril Ltd. is financed at a cost of 20% per annum. The company works for 50 weeks in a year.

Required:

The annual total inventory costs.

(8 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Jaribu Ltd. has been facing challenges in the control of operating costs. A consultant has advised the management that they need to understand the behaviour of the costs for control purposes.

The management accountant has provided the following data which relates to the production of 250 units:

	Sh.
Direct materials cost	80,000
Direct labour cost	120,000
Indirect labour cost (fixed)	3,000
Indirect materials cost (fixed)	18,000
Depreciation cost (fixed)	7,000
Rent (fixed)	15,000

Required:

Formulate a cost function in form of $Y = a + bx$ using accounts analysis method.

(6 marks)

- (b) Kamama Ltd. operates separate cost accounting and financial accounting systems.

The following information for the year ended 30 April 2019 is available:

	Sh.
Cost of finished goods produced	512,050
Cost of goods sold	493,460
Direct materials issued	197,750
Direct wages	85,480
Production overhead (as per financial accounts)	208,220
Direct materials purchases	216,590

Additional information:

- In the cost accounts, additional depreciation of Sh.12,500 per year is to be charged.
- Production overheads are absorbed at the rate of 250% of direct wages.
- The following were the balances as at 1 May 2018:

	Sh.
Stores control account	54,250
Work-in-Progress control account	89,100
Finished goods control account	42,075

Required:

- Stores control account. (3 marks)
- Work-in-Progress control account (5 marks)
- Finished goods control account (3 marks)
- Production overhead control account. (3 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Identify four differences between job order costing and process costing. (8 marks)
- (b) BetterCare Ltd. is a health facility that operates two branches in the country namely; Tibu and Afya.

For the month of April 2019, the following information was available:

	Branch	
	Tibu	Afya
Number of beds	780	500
Number of inpatients	23,472	8,165
Average stay (days)	7.5	19
Number of outpatients	216,500	63,920

Details	Costs breakdown			
	Tibu branch		Afya branch	
	Inpatient Sh.	Outpatient Sh.	Inpatient Sh.	Outpatient Sh.
Supplies and drugs	1,821,520	693,600	1,551,350	285,450
Medical staff	8,729,100	3,308,950	6,832,700	1,975,050
Support services	2,210,500	2,563,700	1,845,380	1,591,620
General services	<u>3,524,470</u>	<u>1,721,800</u>	<u>1,937,410</u>	<u>635,600</u>
Total costs	<u>16,285,590</u>	<u>8,288,050</u>	<u>12,166,840</u>	<u>4,487,720</u>

Required:

For each branch, compute:

- (i) Cost per inpatient. (6 marks)
- (ii) Cost per outpatient. (6 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Summarise six functions of a budget committee. (6 marks)
- (b) Amwa Ltd. manufactures two products: XL and YL, using two types of materials; M and N.

The following information relates to the production activities of the company in the month of March 2019:

1. **Budgeted sales:**

Product	Quantity (Kgs.)	Price per unit (Sh.)
XL	1,250	215
YL	3,111	302

2. **Budgeted materials to be used per unit:**

Material	M	N
Unit cost (Sh.)	90	60
Quantity (Kgs.):		
XL	6	4
YL	2	2

3. **The following inventories are expected:**

Finished products	Opening inventories (Kgs.)	Closing inventories (Kgs.)
XL	200	501
YL	443	333
Materials:		
M	221	100
N	50	155

Required:

- (i) Sales budget in value. (2 marks)
- (ii) Production budget. (4 marks)
- (iii) Material usage budget. (4 marks)
- (iv) Material purchases budget. (4 marks)

(Total: 20 marks)

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