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ATD LEVEL III

FUNDAMENTALS OF MANAGEMENT ACCOUNTING

TUESDAY: 26 November 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) Summarise six objectives of management accounting. (6 marks)
- (b) Mantex Ltd. has two production departments namely; assembly and finishing. The company has been using a plantwide predetermined overhead rate based on direct labour hours.

The following estimates were made for the year ended 30 June 2019:

	Assembly	Finishing	Total
Manufacturing overheads (Sh.)	200,000	100,000	300,000
Direct labour hours	40,000	35,000	75,000
Machine hours	5,000	16,000	21,000

Mantex Ltd. started and completed Job I005 during the year. The job order cost sheet indicated the following:

Material requisitioned	Sh.18,000
Direct labour cost	Sh.16,000
Direct labour hours:	
Assembly	1,700
Finishing	1,300
Machine Hours:	
Assembly	1,000
Finishing	700

A total of 2,000 units were produced on Job I005.

Required:

Determine the total cost and the unit cost for each of the 2,000 units produced by Job I005 assuming that Mantex Ltd. uses:

- (i) A plantwide predetermined overhead rate based on direct labours. (6 marks)
- (ii) Separate department overhead rates, based on direct labour hours for assembly department and machine hours for finishing department. (8 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Explain four advantages of using simple linear regression analysis method. (8 marks)
- (b) Safiri Tours and Travel Ltd. operates tourist travel services in the game parks around East Africa. The company is in the process of purchasing a tour van. The following details relating to the van are provided:

	Sh.
Cost of the van	5,500,000
Trade-in price after 2 years or 60,000 Kilometres is expected to be	1,500,000
Spare parts per 1,000 kilometres	20,000
Maintenance every 6 months costing	60,000
Vehicle licence per annum	80,000
Insurance per annum	150,000

Additional information:

1. The company purchases petrol in barrels at a cost of Sh.1,900 per barrel.
2. The average mileage per barrel is 25 kilometres.

Required:

A cost analysis schedule for mileages of 5,000, 10,000, 15,000 and 30,000 kilometres per annum showing the following details:

- (i) Total variable cost. (2 marks)
- (ii) Variable cost per kilometre. (2 marks)
- (iii) Total fixed cost. (2 marks)
- (iv) Fixed cost per kilometre. (2 marks)
- (v) Total cost. (2 marks)
- (vi) Total cost per kilometre. (2 marks)

(Total: 20 marks)

QUESTION THREE

(a) Citing appropriate examples, explain the meaning of the following terms as used in cost classification:

- (i) Imputed cost. (3 marks)
- (ii) Incremental cost. (3 marks)

(b) Jane Atieno has developed a new product that she has decided to produce and market. To proceed with the project, Jane will have to quit her present job, where she earns Sh.300,000 per month.

Jane has found premises to rent for Sh.50,000 per month that will house the production facilities. In addition, she will lease equipment that will be used to manufacture the product, at Sh.10,000 per month.

Jane had purchased all other required tools five years ago for Sh.150,000. Material costs to make the product are estimated at Sh.300 per unit while monthly advertising costs for the product are estimated at Sh.60,000.

Required:

Complete the chart below by placing an "X" under each heading that helps to identify the costs involved. There can be "Xs" placed under more than one heading for a single cost.

	Opportunity cost	Sunk cost	Variable cost	Fixed Cost	Prime cost	Conversion cost	Period cost	Differential cost
Rent for building								
Original cost of tools								
Equipment leased								
Material cost								
Present salary								
Advertising								

(7 marks)

(c) Bullock Ltd. assembles bicycles for sale in the local market. They produce 4,050 bicycles annually.

The tyres used in these bicycles (2 for each bicycle) are purchased from an outside supplier at a unit cost of Sh.450. The annual holding cost is 10% of the value per tyre while the cost of making an order from the supplier is Sh.1,000.

Required:

- (i) Determine the number of the tyres that should be ordered in each order if the relevant costs are to be minimised. (4 marks)
- (ii) Calculate the minimum total relevant cost if orders are made according to the plan established in (c) (i) above. (3 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) The standard cost per unit of product "J" manufactured by Design Manufacturing Ltd. is provided below:

	Sh.
Direct material	120
Direct labour	130
Variable overheads	150
Fixed overheads	<u>200</u>
Total production cost	600
Standard profit	<u>150</u>
Selling price	<u>750</u>

Additional information:

1. The actual data for the month of October 2019 was as follows:

	Units
Opening stock	14,000
Closing stock	12,500
Sales (Sh.700 per unit)	25,000

2. Actual fixed overheads incurred amounted to Sh.4,500,000.

Required:

Income statement using:

- (i) Marginal costing. (8 marks)
- (ii) Absorption costing. (8 marks)
- (b) Reconciliation statement for the profits obtained in (a) (i) and (a) (ii) above. (4 marks)
- (Total: 20 marks)

QUESTION FIVE

- (a) The following information was extracted from the books of Imara Ltd. from the forecasts made for the last five months of the year ended 31 December 2018:

Month	Sales Sh."000"	Purchases Sh."000"	Overheads Sh."000"	Depreciation Sh."000"	Wages Sh."000"
August	42,000	24,000	4,200	320	13,000
September	26,000	25,000	3,200	320	9,000
October	28,000	14,000	3,600	320	9,600
November	32,000	16,000	3,400	320	12,000
December	38,000	18,000	3,800	320	12,000

Additional information:

- All purchases are on credit and suppliers are paid two months after the date of transaction.
- 25% of the sales are on credit. Debtors are expected to settle their accounts the month after which sales took place.
- Wages are paid in cash as they become due.
- The bank balance on 1 October 2018 was estimated to be Sh.3,600,000.
- Overheads are paid in the month in which they are incurred.
- Depreciation expense is included in the overheads provided above.

Required:

Cash budget for the fourth quarter showing the months of October, November and December 2018. (12 marks)

- (b) Baraka manufacturers operate separate financial accounts and cost accounts. The cost accountant maintains the cost ledgers while the chief accountant maintains the financial ledgers.

The financial accounting profit for the year ended 30 September 2019 amounted to Sh.29,250,000 while the cost accounting profit for the same period amounted to Sh.36,270,000.

The following information relating to the year ended 30 September 2019 is provided:

1. Debenture interest of Sh.5,070,000 was paid during the year.
2. Rent of Sh.9,750,000 was received during the year.
3. Goodwill amounting to Sh.7,800,000 was written off.
4. Machinery with a net book value of Sh.5,850,000 was sold for Sh.8,190,000.
5. Notional rent charge of Sh.5,460,000 was charged in the cost accounts.
6. Discounts allowed amounted to Sh.2,730,000 while discounts received amounted to Sh.1,950,000.
7. Overheads absorbed in cost accounts amounted to Sh.78,000,000 while actual overheads incurred amounted to Sh.85,800,000
8. Valuation of stocks using two approaches are provided below:

	Financial accounts	Cost accounts
	Sh.	Sh.
Opening stock of raw materials	6,240,000	8,190,000
Opening stock of finished goods	18,330,000	16,380,000
Closing stock of raw materials	10,530,000	13,260,000
Closing stock of finished goods	15,210,000	15,600,000

Required:

A statement reconciling the cost profit and financial profit for the year ended 30 September 2019.

(8 marks)

Total: 20 marks)

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