



ATD LEVEL III

PILOT PAPER

FUNDAMENTALS OF MANAGEMENT ACCOUNTING

December 2021.

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) Define “management accounting” and give reasons why it is important to study the subject as an accounting student. (4 marks)
- (b) Define the following terms:
- (i) Direct costs. (2 marks)
 - (ii) Indirect costs. (2 marks)
 - (iii) Break-even point. (2 marks)
- (c) Bagasse company produces a liquid with the following direct costs:
- 1. Materials Sh. 42.
 - 2. Labour Sh.18.
 - 3. The company has capacity to produce 40,000 units of the liquid product. The fixed costs are Sh.1,500,000.
 - 4. The product selling price is Sh.100.

Required:

- (i) The break-even point for the product. (4 marks)
- (ii) The company receives an order of 40,000 units but the customer is requesting for a discount of 10%. should the company accept or reject the order? Justify your answer. (6 marks)

(Total: 20 marks)

QUESTION TWO

- (a) (i) Define break-even analysis. (2 marks)
- (ii) List the limitations of break-even analysis. (4 marks)
- (b) The following information was obtained from a company producing Product Zed:

	Sh.
Fixed factory overhead costs	6,000,000
Fixed selling overhead costs	120,000
Variable manufacturing cost/unit	120
Variable selling cost/unit	30
Selling price per unit	240

Required:

- (i) Calculate the break-even point for the product. (4 marks)

- (ii) Calculate the number of units required to produce a profit of Sh.280,000.00 (4 marks)
- (c) Drake Ltd. has provided projected sales and costs for the next financial year as follows:

Fixed costs (Sh.)	100,000,000
Variable costs (Sh.)	75,000,000
Production units	37,500
Selling price per unit (Sh.)	5,000

Required:

- (i) The projected profit for the year. (3 marks)
- (ii) The management wishes to lower the selling price by 20% to increase sales by 20%. Advise whether it is prudent. (3 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Describe the features of a budget. (4 marks)
- (b) Omran produces two products. The following estimates relate to the financial year ending December 2022:

Product	X	Y
Selling price per unit (Sh.)	240	350
Direct materials (kgs)	5	4
Direct labour required (hours)	4	3
Sales units	38,000	46,000
Finished products:		
01.01.2022 year beginning (units)	3,200	1,000
31.12.2022 year ending (units)	2,000	1,500

Additional information:

- Direct material cost/kg = Sh 12.00
- Labour cost/hour = Sh 20.00
- The stock of direct material at the beginning and closing of the year are expected to be 10,000 kgs and 500 kgs respectively.

Required:

- Sales budget.
- Production budget.
- Labour cost budget.
- Material usage budget.
- Material purchase budget.

(16 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Highlight the advantages of perpetual stores management system. (4 marks)
- (b) The following information was obtained from a stores card for four months as follows:

Month	Units purchased	Cost (Sh per unit)
January	60,000	72
February	70,000	74
March	80,000	78

April	60,000	81
Month	Sales	Price (Sh per unit)
January	70,000	82
February	60,000	84
March	70,000	88
April	65,000	91

Additional information:

1. The operating costs for the year was Sh.6,000,000.00 which was evenly distributed throughout the year.
2. The opening stock was 30,000 units which had been purchased at a price of Sh.70 per unit.
3. The organisation used FIFO method in stock management.

Required:

- (i) Outline the advantages of FIFO method in stores management. (2 marks)
 - (ii) Calculate the closing stock for the above organisation. (3 marks)
 - (iii) Prepare a store card for the organisation using FIFO method. (6 marks)
 - (iv) Calculate the profit for the company during the 4 months. (5 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Explain some of the challenges that have affected manufacturing businesses due to the COVID-19 pandemic. (6 marks)
- (b) Biafra Ltd. provided the following information for machine maintenance for the past eight months:

Period	Machine hours	Maintenance cost
1	10	24
2	6	22
3	2	12
4	9	28
5	8	20
6	7	19
7	4	14
8	12	30

Required:

- (i) Estimate the cost of a machine that can be repaired for 25 hours using the high low method. (4 marks)
 - (ii) Highlight the advantages of using graphs in management accounting. (3 marks)
- (c) Explain the importance of the following to a management accountant:
 - (i) Internet. (4 marks)
 - (ii) Tax expert. (3 marks)
- (Total: 20 marks)**
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