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ATD LEVEL III

FUNDAMENTALS OF MANAGEMENT ACCOUNTING

MONDAY: 30 August 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) Outline six methods used in cost classification. (6 marks)
- (b) Samaki Ltd. is a company based in the industrial area that manufactures fishing hooks and fishing nets. The Company uses predetermined overhead absorption rates in applying overheads to production orders. In this respect, it uses the cost of labour in applying overheads incurred in department A while in department B it uses machine hours utilised in the department.

The company made the following projections at the commencement of the year ending 30 June 2021:

	Department A	Department B
	Sh.	Sh.
Direct materials	1,800,000	400,000
Direct labour	1,200,000	250,000
Production overheads	<u>960,000</u>	<u>220,000</u>
	<u>3,960,000</u>	<u>870,000</u>
Machine hours	96,000	22,000
Direct labour hours	80,000	25,000

During the month of June 2021, Job B25 consumed the following inputs:

	Department A	Department B
Materials issued (Sh.)	11,000	2,500
Direct labour cost (Sh.)	9,600	2,000
Machine hours	768	176
Direct labour hours	640	200

Required:

- (i) The overhead absorption rate for department A and department B. (4 marks)
- (ii) The total cost of production of Job B25. (6 marks)
- (iii) At the end of June 2021, the actual factory cost incurred amounted to Sh.944,000 in department A and Sh.231,000 in department B.

Determine the over or under absorbed overhead for each department and for the entire factory. (4 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Describe five conditions that must be satisfied for an effective costing system to operate in an organisation. (10 marks)
- (b) ABC Ltd. produces three products namely X, Y and Z. The following data relates to the three products:

Details	Product			Total
	X	Y	Z	
	Sh.	Sh.	Sh.	Sh.
Sales	250,000	180,000	150,000	580,000
Total costs	<u>200,000</u>	<u>200,000</u>	<u>120,000</u>	<u>520,000</u>
Profit (loss)	<u>50,000</u>	<u>(20,000)</u>	<u>30,000</u>	<u>60,000</u>

Additional information:

- Total costs comprise 75% variable and 25% fixed.
- The directors of ABC Ltd. consider Product 'Y' as a loss making and therefore should be discontinued.

Required:

Using suitable computations, advise the management of ABC Ltd. on whether to discontinue production of product 'Y'.
(10 marks)

(Total: 20 marks)**QUESTION THREE**

Makao Ltd. values, advertises and sells residential properties on behalf of its customers. The company has been in business for only a short time and is preparing a cash budget for the first four months of the year 2022.

The expected sales of residential properties are as follows:

Year	2021	2022	2022	2022	2022
Month	December	January	February	March	April
Units sold	10	10	15	25	30

Additional information:

- The average price of each property is Sh.18,000,000 and Makao Ltd. charges a fee of 3% of the value of each property sold.
- The company receives 10% of the charged fee in the month of sale and remaining balance in the following month.
- The company has 9 employees who are paid on a monthly basis. The average salary per employee is Sh.3,500,000 per year.
- If more than 20 properties are sold in a given month, each employee is paid in that month a bonus of Sh.14,000 for each additional property sold.
- Variable expenses are incurred at the rate of 0.5% of the value of each property sold and these expenses are paid in the month of sale.
- Fixed overheads of Sh.430,000 per month are paid in the month in which they arise.
- Makao Ltd. pays interest every three months on a loan of Sh.20,000,000 at an interest rate of 6% per annum. The last instalment payment in each year is paid in the month of December.
- An outstanding tax liability of Sh.9,580,000 is due to be paid in the month of April 2022. In the same month, Makao Ltd. intends to dispose of surplus vehicles, with a net book value of Sh.1,500,000 for Sh.2,000,000.
- The cash balance at the beginning of January 2022 is expected to be a deficit of Sh.4,000,000.

Required:

Prepare a monthly cash budget for the months of January 2022 to April 2022.

(20 marks)**QUESTION FOUR**

The following information relates to Product "XX", the only product manufactured and sold by Acumen Ltd.

	Price per unit
	Sh.
Selling price	70
Direct material cost	25
Direct labour cost	20
Variable production overhead	5
Variable sales and marketing overhead	2

The following levels of activity took place over the first three months of the product's life:

	Sales units	Production units
September 2020	4,750	5,000
October 2020	5,500	6,000
November 2020	6,500	7,000

Additional information:

- Budgeted fixed production overhead was Sh.300,000 per annum.
- Actual fixed production overhead for the period was Sh.25,000 per month.
- Sales and marketing overheads of Sh.25,000 per month and administration overhead of Sh.18,750 per month were in line with the budget for that period.

4. All fixed overhead costs are budgeted on the basis of a projected volume of 75,000 units per year and all costs are expected to be incurred at a constant rate throughout the year.
5. The business does not expect to have any inventory as at 1 September 2020.

Required:

- (a) Statement of profit or loss for each month using each of the following methods:
 - (i) Absorption costing. (7 marks)
 - (ii) Marginal costing. (7 marks)
 - (b) Calculate the under/over absorbed fixed production overhead for each month. (3 marks)
 - (c) Explain the reason for any difference in the reported profit under the two method for each month. (3 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Outline four advantages of piece rate method of labour remuneration. (4 marks)
- (b) An employee is compensated on differential piece rate basis. The following schedule is applied to determine his remuneration:

Number of units produced	Wage rate per unit
	Sh.
1 - 250	65
251 - 500	72.5
501 - 1,000	75
Over 1,000	77.5

James Karanja completed 1,680 units during the month of July 2021.

Required:

- Determine the wages payable to him. (4 marks)
- (c) Best Ways Product Kenya Ltd. operates cost and financial accounting system. The following balances from the final accounts of the company for both systems are available to you as the company's financial and management accountant for the year ended 31 December 2020.

	Sh. "000"
Net profit as per financial accounts	95,670
Net profit as per cost accounts	100,140
Dividends paid	1,800
Loss due to theft and pilferage charged to financial accounts	390
Stock depreciation charged to financial accounts	1,290
Stores adjustment credited in financial accounts	630
Bank interest credited in financial accounts	345
Tax provision in financial accounts	900
Interest received not included in cost accounts	675
Depreciation recovered in cost accounts	5,925
Depreciation charge in financial accounts	5,490
Excess administration costs recovered	6,375
Factory costs under recovered	8,550

Required:

- A reconciliation statement of the cost accounts and financial accounts profits for the year ended 31 December 2020. (12 marks)
- (Total: 20 marks)**
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