

# KASNEB

## ATD LEVEL III

### FUNDAMENTALS OF MANAGEMENT ACCOUNTING

MONDAY: 23 May 2016.

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 cost accounting system should be prepared based upon the requirements and particular needs of a business.

With reference to the above statement, describe four features of an ideal cost accounting system. (8 marks)

- (b) Davinda Ltd. manufactures a single product branded "MPZ". The company uses process costing technique to account for the costs incurred.

The following information relates to the company's operations for the month of April 2016:

1. 1,200 kilogrammes of raw materials costing Sh.860,064 were input to the process.
2. Conversion costs amounted to Sh.238,656.
3. Losses in form of rejected product was estimated at 16% of the input materials.
4. Rejected product was sold at Sh.360 per kilogramme.
5. During the month, 994 kilogrammes of finished product passed the inspection.
6. The remaining output was sold as a rejected product.
7. There was no work-in-progress either at the beginning or at the end of the month.

**Required:**

- (i) The cost per unit of the normal output. (6 marks)

- (ii) Process account. (6 marks)

(Total: 20 marks)

#### QUESTION TWO

- (a) Describe four types of costs that could be of significance in managerial decision making. (8 marks)

- (b) SK Ltd. has never operated a system of stock control. You have recently been appointed as the management accountant and tasked to develop a system of stock control.

From your investigations, you established the following consumption pattern for a component number G007 during the year 2015:

Month	Monthly consumption (units)
January	800
February	900
March	1,000
April	1,200
May	1,300
June	1,400
July	1,400
August	1,200
September	1,000
October	800
November	600
December	400

**Additional information:**

- The lead time for G007 is a minimum of 3 months and a maximum of 5 months.
- The cost of ordering was found to be Sh.20 per order.
- The cost price per unit of G007 is Sh.30.
- The inventory holding cost is 10% of the cost price.

**Required:**

- Economic order quantity (EOQ). (4 marks)
- Re-order level. (2 marks)
- Minimum stock level. (2 marks)
- Maximum stock level. (2 marks)
- Frequency of ordering. (2 marks)

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

MST enterprise manufactures two products namely: PQ and QP. Information relating to each of these products for the month of April 2016 is as follows:

	PQ	QP
	<b>Units</b>	<b>Units</b>
Opening inventory	Nil	Nil
Production	15,000	6,000
Sales	10,000	5,000
	<b>Sh.</b>	<b>Sh.</b>
Sales price per unit	20	30
<b>Unit costs:</b>		
Direct materials	8	14
Direct labour	4	2
Variable production overheads	2	1
Variable sales overheads	2	3

**Additional information:**

- Fixed costs for the month were as follows:
 

	Sh.
• Production costs	40,000
• Administrative costs	15,000
• Sales and distribution costs	25,000
- The budgeted fixed production overheads amount to Sh.45,000 for a normal combined output of 22,500 units for PQ and QP.

**Required:**

Prepare the income statement for the month of April 2016 using:

- Marginal costing. (8 marks)
- Absorption costing. (8 marks)
- Reconcile the profits in (a) and (b) above. (4 marks)

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

- BAC Ltd. has provided the following information relating to their sales budget for the period June 2016 to December 2016:

Month (2016)	Sales (units)
June	5,000
July	7,500
August	10,000
September	15,000
October	20,000
November	30,000
December	35,000

BAC Ltd. has a policy to maintain inventory levels equal to 30% of the following month's sales requirements. Inventory on 1 June 2016 is projected to be 1,500 units.

**Required:**

A production budget for BAC Ltd. for the period June 2016 to December 2016.

(6 marks)

(b) The bankers of Macvision Ltd. have requested a cash budget for the month of July 2016 and August 2016. Macvision Ltd. has gathered the following information for budget preparation:

1. The cash balance forecast as at 1 July 2016 amounted to Sh.35,000,000.
2. Forecasted sales are as follows:

	May 2016	June 2016	July 2016	August 2016
	Sh. "000"	Sh. "000"	Sh. "000"	Sh. "000"
Cash sales	25,000	30,000	40,000	50,000
Credit sales	<u>60,000</u>	<u>80,000</u>	<u>100,000</u>	<u>110,000</u>
Total	<u>85,000</u>	<u>110,000</u>	<u>140,000</u>	<u>160,000</u>

3. Credit sales are collected 40% in the month of sale, 35% in the month following the month of sale, and 25% in the second month following the sale.
4. Inventory purchases average 55% of the total sales. Of these purchases, 65% are paid for in the month of purchase, with the remainder paid for in the following month.
5. Operating expenses are paid for as incurred. These expenses include Sh.2,500,000 in rent, Sh.6,000,000 in salaries and Sh.750,000 in utilities and miscellaneous expenses.

**Required:**

For the months of July 2016 and August 2016, prepare:

- (i) A schedule of debtors collections. (4 marks)
- (ii) A schedule of creditors payments. (4 marks)
- (iii) A cash budget. (6 marks)

(Total: 20 marks)

**QUESTION FIVE**

- (a) Explain four items that cause the difference between profits as per financial accounts and profits as per cost accounts under the interlocking cost book keeping system. (8 marks)
- (b) Furaha community centre carries out subsidised rehabilitation wellness checks on recovering alcoholics in the upper region of the country. The records of the centre show that the cost of carrying out rehabilitation wellness checks for the last five months was as follows:

Month	Number of clients seen	Total cost Sh. "000"
December 2015	650	17,125
January 2016	940	17,800
February 2016	1,260	18,650
March 2016	990	17,980
April 2016	1,150	18,360

**Required:**

Estimate the cost of wellness check on 900 clients using:

- (i) Simple linear regression method. (6 marks)
- (ii) High-low method (6 marks)

(Total: 20 marks)