

KASNEB

CPA PART I SECTION 2

MANAGEMENT ACCOUNTING

TUESDAY: 24 November 2015.

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 three benefits of management accounting. (6 marks)
- (b) Highlight four purposes of performance measurements. (4 marks)
- (c) The net profit of Pine Ltd., a manufacturing concern for the year ended 30 September 2015 as shown by the financial accounts amounted to Sh.257,510. The cost accounts for the same period disclosed a net profit of Sh.344,800.

On examination of both sets of accounts, the following facts were discovered:

| | Sh. |
|--|--------|
| 1. Production overheads under-recovered in cost accounts | 6,240 |
| 2. Administrative overheads over-recovered in cost accounts | 3,400 |
| 3. Depreciation charged in financial accounts | 22,400 |
| 4. Depreciation recovered in cost accounts | 25,000 |
| 5. Interest on investments not included in cost accounts | 16,000 |
| 6. Obsolescence loss charged in financial accounts | 11,400 |
| 7. Income tax provided for in financial accounts | 80,600 |
| 8. Bank interest and dividends received in financial accounts | 2,450 |
| 9. Loss due to depreciation in stock value charged in financial accounts | 13,500 |

Required

A reconciliation statement between the net profit as per cost accounts and as per financial accounts. (10 marks)
(Total: 20 marks)

QUESTION TWO

- (a) Describe four advantages of budgetary control in an organisation. (8 marks)
- (b) Tarvol Ltd. manufactures and sells a single product. The company's contribution format income statement for the year ended 31 October 2015 is given below:

| | Total | Per unit | Percentage of sales |
|----------------------|----------------|-----------|---------------------|
| | Sh. | Sh. | |
| Sales (20,000 units) | 1,200,000 | 60 | 100% |
| Variable expenses | <u>900,000</u> | <u>45</u> | <u>?</u> |
| Contribution margin | 300,000 | <u>15</u> | <u>?</u> |
| Fixed expenses | (240,000) | | |
| Net income | <u>60,000</u> | | |

The management of the company is anxious to increase the company's profit and has asked for analysis of a number of items.

Required:

- (i) Compute the company's contribution margin ratio and variable expense ratio. (4 marks)
- (ii) Compute the company's break-even point both in units and in shillings. (4 marks)
- (iii) Compute the increase in net operating income of the company assuming that sales will increase by Sh.400,000 in the next financial year and the cost behaviour patterns will remain unchanged. Use the contribution margin ratio obtained in (b) (i) above to compute your answer. (2 marks)
- (iv) Refer to the original data. Assume that in the next financial year, the management targets the company to earn a profit of at least Sh.90,000. Compute how many units would have to be sold to meet this target profit. (2 marks)

(Total: 20 marks)

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QUESTION THREE

(a) Explain three purposes of cost classification by behaviour.

(6 marks)

(b) Kena Stores provided the following information in respect of their operations for the month of July 2015:

| Receipts | | Issues | |
|----------|----------------------|---------|-------------|
| Date | | Date | |
| 3 July | 600 units at Sh.60 | 5 July | 1,600 units |
| 7 July | 1,000 units at Sh.70 | 12 July | 400 units |
| 18 July | 2,400 units at Sh.80 | 20 July | 1,200 units |
| | | 29 July | 600 units |
| | | 31 July | 200 units |

Additional information:

- Materials in store as at 30 June 2015 were 2,000 units at Sh.50.
- On 9 July 2015, part of the materials issued on 5 July 2015 amounting to 200 units were returned.
- On 15 July 2015, 100 units were returned to Kena Stores.
- On 21 July 2015, there was materials wastage of 500 units.
- Returns from a June 2015 issue of 100 units at Sh.45 was received on 25 July 2015.
- On 28 July 2015, there was shortage of stock of 20 units.
- Kena Stores uses the first in first out (FIFO) method to value its inventory.

Required:

A stores ledger card for Kena Stores for the month of July 2015.

(14 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Respor Ltd. manufactures three products namely; A, B and C. The company has four departments namely; W, X, Y and Z. The following information relates to Respor Ltd. for the year ended 30 June 2014:

| | Sh."000" |
|-------------------------------------|----------------|
| Rates | 25,000 |
| Depreciation: Buildings | 45,000 |
| Machinery | 20,000 |
| Maintenance of buildings | 15,000 |
| Insurance: Buildings | 5,000 |
| Machines | 4,000 |
| Inventory | 12,000 |
| Workman's compensation | 4,000 |
| Electricity: Lighting | 20,000 |
| Power | 24,000 |
| Supervision | 60,000 |
| Personnel, time keeping and payroll | 40,000 |
| Canteen expenses | 12,000 |
| | <u>286,000</u> |

Departmental information:

| | W | X | Y | Z |
|------------------------------------|---------|---------|--------|--------|
| Area (square metres) | 4,000 | 2,000 | 3,000 | 1,000 |
| Value of machines (Sh."000") | 80,000 | 60,000 | 60,000 | - |
| Running of machines | 15,000 | 7,000 | 8,000 | - |
| Average inventory value (Sh."000") | 20,000 | 15,000 | 15,000 | 10,000 |
| Wages paid (Sh."000") | 120,000 | 170,000 | 80,000 | 30,000 |
| Number of employees | 15 | 20 | 10 | 5 |

Required:

Overhead analysis sheet.

(10 marks)

- (b) Qui Ltd. manufactures a single product branded "Q". The standard selling price and variable cost per unit of product "Q" are as follows:

| | | |
|---------------|-------------------------------------|------------|
| | | Sh. |
| Selling price | | 136 |
| Materials | 2 kilograms at Sh.10 per kilogramme | 20 |
| Labour | 3 hours at Sh.24 per hour | 72 |

Additional information:

1. The budgeted sales for the month of October 2015 were 38,000 units.
2. The actual results for the month of October 2015 were as follows:

| | |
|--------------------------------|--------------|
| Production and sales | 36,000 units |
| Selling price per unit | Sh.134 |
| Materials (76,000 kilogrammes) | Sh.754,000 |
| Labour (114,000 hours paid) | Sh.2,656,000 |
3. The company operates a standard costing system and a just-in time (JIT) purchasing and production system.

Required:

Showing applicable variances, prepare a statement that reconciles the budgeted contribution with the actual contribution for the month of October 2015.

(10 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Highlight six assumptions of cost volume profit (CVP) analysis. (6 marks)

- (b) Computech has two fully automated machines M1 and M2 through which metal is passed to produce stands. There are production constraints and Computech has decided to produce only one of the three stand models P, Q and R during the next financial year.

The forecasts for the next financial year are as follows:

| | P | Q | R |
|--------------------------|----------|----------|----------|
| Maximum sales (units) | 7,400 | 10,000 | 12,000 |
| Stand unit data: | | | |
| Selling price (Sh.) | 900 | 800 | 1,000 |
| Machine time: M1 (hours) | 0.25 | 0.15 | 0.3 |
| M2 (hours) | 0.2 | 0.225 | 0.25 |

Additional information:

1. Maximum operating hours for machine M1 is 1,700 hours while for machine M2 is 1,920 hours.
2. Maximum quantity of metal available amounts to 17,000 metres.
3. Each stand requires 2 metres of metal.
4. The cost of metal amounts to Sh.50 per metre.
5. Variable machine overheads for machine M1 and machine M2 are Sh.500 per hour and Sh.600 per hour respectively.
6. Production capacity is dedicated to the stands only.

Required:

Advise the management of Computech on which stand to produce and sell indicating the number of units and resulting contribution.

(14 marks)

(Total: 20 marks)

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