kasneb

CPA PART I SECTION 2

MANAGEMENT ACCOUNTING

WEDNESDAY: 29 November 2017. **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) Explain four purposes of cost accounting. (8 marks)

(b) Mazuri Ltd., a manufacturing company, has three production departments and two service departments. Overheads for the departments for a specific period were as follows:

	Sh. "000"
Production departments	
X	2,500
Y	2,000
Z	1,500
Service departments	
A	1,000
B	780
Total	7,780

Additional information:

1. A technical assessment for the apportionment of the service department costs were as follows:

Department	X	Y	Z	A	B
A	30%	30%	20%	-	20%
B	40%	30%	20%	10%	-

2. Output for the production departments during the period are provided below:

Department	Units of outputs
X	200,000
Y	100,000
Z	50,000

Required:
The total overheads chargeable to the production departments using:

(i) Continuous allotment method. (6 marks)

(ii) Simultaneous equation method. (4 marks)

(iii) Overhead cost per unit for each department. (2 marks)

(Total: 20 marks)

QUESTION TWO

(a) XYZ Ltd. manufactures a product branded "Zed". The company has a production capacity of 1,000 units of Zed per day.

The following information relates to one unit of the product:

	Sh.
Materials	120
Labour	40
Variable overheads	40
Fixed overheads	100
Selling price	400

Required:

(i) Calculate the Break-Even-Point (BEP) of sales at the current selling price for 1,000 units. (3 marks)

(ii) The marketing manager intends to reduce the selling price by either 10% or 20% for the 1,000 units without affecting the total profit.

Advise the marketing manager on the required sales volumes under the two options. (8 marks)

(b) BRK Ltd. orders a raw material graded "Exe" for its manufacturing purpose. The following information is available from the production manager:

Annual consumption of Exe (units)	200,000
Ordering cost per order (Sh.)	18,750
Carrying cost per unit (Sh.)	3

Required:

(i) The Economic Order Quantity (EOQ) for material "Exe". (2 marks)

(ii) The number of orders to be placed per year. (1 mark)

(iii) The production manager has proposed to increase the current Economic Order Quantity (EOQ) to 100,000 units. Justify how this would increase the total cost of inventory thus not profitable. (6 marks)

(Total: 20 marks)

QUESTION THREE

(a) Mitambani Manufacturers Ltd. are in the initial process of adopting a Just-in-Time (JIT) inventory control system:

Required:

(i) Highlight four objectives of a JIT inventory control system. (4 marks)

(ii) Describe four benefits that would accrue to the company from using JIT inventory control system. (4 marks)

(b) Summarise three limitations of accounts analysis as a method of cost estimation. (3 marks)

(c) Jundi Ltd. maintains separate cost and financial ledgers. The Accountant has provided the following opening trial balance in the cost ledger:

Cost ledger opening trial balance

	Sh.	Sh.
Financial ledger control account		249,520
Work-In-Progress (WIP) control account	125,210	
Finished goods control account	85,150	
Stores ledger control account	39,160	
	249,520	249,520

Additional information:

1. During the period, total sales amounted to Sh.375,290.
2. Total purchases, wages and overheads amounted to Sh.292,860.
3. At the end of the period, the stores ledger and Work-In-Progress (WIP) control accounts had the same values as in the opening trial balance above.
4. The closing balance on the financial ledger control account was Sh.212,420.

Required:

(i) The profit for the period. (5 marks)

(ii) Closing trial balance for the period. (4 marks)

(Total: 20 marks)

QUESTION FOUR

(a) In the context of management accounting, distinguish between "discrete costs" and "imputed costs". (4 marks)

(b) The following information was extracted from the financial statements of ABC Ltd. and XYZ Ltd. in respect of the year ended 31 December 2016:

Income statement extracts:

	ABC Ltd. Sh. "000"	XYZ Ltd. Sh. "000"
Sales	497,000	371,000
Cost of sales	(357,840)	(296,800)
Gross profit	139,160	74,200
Operating expenses	(70,460)	(44,520)
Interest	(19,000)	-
Net profit	49,700	29,680

Statement of financial position extracts:

	ABC Ltd. Sh. "000"	XYZ Ltd. Sh. "000"
Non-current assets	142,000	92,000
Current assets:		
Inventory	100,000	87,000
Accounts receivable	46,000	42,000
Cash at bank	40,000	44,000
Current liabilities	98,000	108,000
Long-term loans	33,000	-
Shareholder funds	197,000	157,000

Required:

Assuming a 365 day year, evaluate the performance of the two firms using the following financial performance measures:

(i) Profitability. (4 marks)

(ii) Liquidity. (4 marks)

(iii) Activity. (4 marks)

(iv) Gearing. (4 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Megspa Ltd. manufactures a single product branded "Wye".

The following data relates to its operations for the month of October 2017:

	Budget Units	Actual Units
Sales	60,000	58,000
Production	60,000	60,000
	Sh.	**Sh.**
Sales	840,000	823,600
Direct materials	240,000	246,000
Direct labour	300,000	288,000
Fixed overheads	135,000	140,000
Net income	165,000	149,600

Required:

A flexed budget for the month of October 2017 for the actual sales of 58,000 units. (6 marks)

(b) Tegemeo Ltd. manufactures a product which yields three joint products namely; H, N and T. The joint products are then processed further in a common process which consists of two consecutive stages.

The data below relate to the month of August 2017:

	Process 1	Process 2
	Sh.	Sh.
Direct materials (30,000 units at Sh.20 per unit)	600,000	-
Conversion costs	765,000	2,262,000
Scrap value of normal loss per unit	5	20

Additional information:

1. The output in Process 1 is transferred to Process 2 and amounted to 26,000 units.
2. The output in Process 2 consists of three joint products as follows:

Product	H	N	T
Quantity (units)	10,000	7,000	6,000

3. The normal loss for both Process 1 and Process 2 is 10%.
4. The unit selling prices for H, N and T are Sh.180, Sh.200 and Sh.300 respectively.
5. All joint products are sold as soon as they are produced.
6. Sales value method of joint costs apportionment is used.

Required:

(i) Process 1 account. (4 marks)

(ii) Process 2 account. (6 marks)

(iii) Income statement for the joint products. (4 marks)

(Total: 20 marks)

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