



**CPA INTERMEDIATE LEVEL**  
**PILOT PAPER**  
**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) Distinguish between a cost centre and a cost unit. (4 marks)
- (b) Explain the salient features of Economic Order Quantity approach. (4 marks)
- (c) Sanitize Company Ltd. manufactures a product from raw materials which are purchased at Sh.54 per kg. The company incurs a handling cost of Sh.350 and transport cost of Sh.400 per order.

The carrying cost is Sh.0.50 per kg per month. The investment cost in the raw material is Sh.8. per kg. The annual production of the product is 94,500 units and each kilogramme of raw materials produces two (2) units of the final product.

**Required:**

- (i) Calculate the economic order quantity. (5 marks)
- (ii) Advise how frequently orders should be placed for procurement. (3 marks)
- (iii) If the procurement manager proposes to order on quarterly basis, what discount should be negotiated if the company is not willing to incur extra costs. (4 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) Explain the following terms:
- (i) Material variances. (3 marks)
- (ii) Labour variances. (3 marks)
- (iii) Standard costing. (2 marks)
- (b) To produce a litre of a product, 24 units of materials are required at a standard price of Sh.75 per litre. The actual production for the period is 75,000 units. Records proved that 80,000 units of materials were used at a price of Sh.73 per unit.

**Required:**

Calculate:

- (i) Material cost variance. (4 marks)
- (ii) Material price variance. (4 marks)
- (iii) Material usage variance. (4 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) Countries have development blue prints while other organisations have strategic plans.

Citing challenges in achieving the objectives, explain why it is important for every organisation to have a long-term plan. (6 marks)

(b) Kasap Ltd. manufactures plastic bottles by mixing materials. The following information was obtained from their management accountant during the month of October 2021:

1. Materials used were 12,000 kg at Sh.13 per kg.
2. 12 employees worked 120 hours each at a rate of Sh.25 per hour.
3. Fixed overheads were absorbed at a rate of 100% of direct labour cost.
4. Actual output was 10,000 units.
5. There was no opening or closing work in progress.
6. The company expects a normal 10% of materials input. There is no waste or scrap in the process.

**Required:**

- (i) Calculate the expected cost per unit. (4 marks)
  - (ii) Process account. (3 marks)
  - (iii) If the normal loss is sold at Sh.10.00/kg what would be the revised cost of produced units. (3 marks)
- (c) Explain the various risks associated with stock and inventory management in manufacturing during the COVID-19 pandemic. (6 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

(a) Explain the advantages of linear regression analysis in cost estimation. (4 marks)

(b) Kalu Ltd. produces masks for sale. The following information was provided for the last 8 months in masks production:

Month	No. of masks (000)	Total cost (Sh."000")
1	5	50
2	6	53
3	6.5	55
4	6.7	59
5	7	62
6	7.5	64
7	8	66
8	9	72

**Required:**

Formulate the cost estimation for the cost of producing 10,000 masks using:

- (i) High low method. (3 marks)
  - (ii) Simple linear regression method. (3 marks)
- (c) Highlight features of process costing. (2 marks)
- (d) Bibi Ltd. produces food which passes through two processes A and B then to finished products.

Normal loss is estimated at 590 for each process and 10% scrap which realises Sh.80.00 for process A and Sh.200.00 for process B per unit.

The following information is obtained

	A	B
Materials (units)	1,000	70
Cost of materials per unit (Sh.)	125	200
Wages (Sh.)	28,000	10,000
Other direct expenses (Sh.)	8,000	5,250
Output in units	830	780

**Required:**

Process accounts for the two processes assuming there was no stock or work in progress in the two processes. (8 marks)

**QUESTION FIVE**

- (a) Short Ltd. maintains separate cost and financial ledgers. The accountant has provided the following information from the trial balance.

**Cost ledger opening trial balance:**

	<b>Sh.</b>	<b>Sh.</b>
Financial ledger control account		250,000
Work in progress control account	120,000	
Finished goods control account	110,000	
Stores ledger control account	<u>20,000</u>	
	<u>250,000</u>	<u>250,000</u>

**Additional information:**

1. Total sales during the period amounted to Sh.430,000.
2. Total purchases and other handling costs amounted to Sh.280,000.
3. The work in progress and stores ledger had the same values at the closing of the period.
4. The closing financial ledger balance was Sh.245,000.

**Required:**

- (i) Profit for the period. (5 marks)
- (ii) Closing trial balance for the period. (5 marks)
- (b) The management of Kalu Ltd. has produced the following projections for the year 2022:

	<b>Sh.</b>
Selling price per unit	200
Variable cost per unit	120
Fixed costs	4,000,000
Number of units produced and sold	70,000

**Additional information:**

The management is considering the following options.

1. Reducing selling price by 10% to increase sales by 15%.
2. Reducing selling price by 20% to increase sales by 20%.

**Required:**

- (i) Worksheet showing effects of each consideration. (2 marks)
- (ii) The best option from the analysis. (8 marks)

**(Total: 20 marks)**

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