

kasneb

ATD LEVEL III

FUNDAMENTALS OF MANAGEMENT ACCOUNTING

WEDNESDAY: 15 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) The following information was obtained from the stores record of Bandari Ltd., a retail outlet that distributes Kokakora brands in the coastal region for the month of February 2021:

Date	Receipts	
	Number of crates	Price per crate (Sh.)
4	400	550
10	500	565
15	300	575
20	400	565
25	350	550

Date	Issues	
	Number of crates	Price per crate (Sh.)
8	550	850
17	850	800
27	700	825

Additional information:

- On 31 January 2021, there were 300 crates which were valued at Sh.500 per crate.
- Bandari Ltd. uses First in First Out (FIFO) method for valuing inventories.

Required:

Stores ledger card for the month of February 2021.

(8 marks)

- (b) Best Value Ltd. manufactures three products namely; Smart, Cool and Fit. The following budget information is relevant for the year ended 30 April 2021:

	Smart	Cool	Fit
Selling price per unit (Sh.)	4,000	6,000	8,000
Variable cost per unit (Sh.)	3,200	4,800	6,400
Fixed costs (Sh.)	14,000,000	20,000,000	26,000,000
Maximum sales (Units)	35,000	15,000	50,000
Direct labour hours per unit	2	5	3
Direct materials in (kgs) per unit	16	30	20

Additional information:

- It has been estimated that the maximum direct labour hours available for the year will be 300,000 hours.
- It will neither be possible to employ additional workers nor work overtime.
- The direct materials which is imported from Saudi Arabia will be limited to a total of 1,480,000 kilograms due to an import quota imposed on the material.
- All opening and closing inventories will be zero.

Required:

- Using suitable computations, identify the limiting factor for Best Value Ltd. (4 marks)
- Compute the sales mix that will maximise profits for Best Value Ltd. (6 marks)
- Compute the resulting profit from the sales mix in (b) (ii) above. (2 marks)

(Total: 20 marks)

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QUESTION TWO

- (a) Smart Designs Ltd., a company that specialises in making men’s suites is in the process of planning for production cost for the next financial year. The budgeted production is estimated to be 50,000 suites. The overhead costs have been classified as either fixed or variable and are provided below:

Overheads	Cost (Sh.)
Indirect materials	450,000 (variable)
Rent	150,000 (fixed)
Electricity	40,000 (Sh.10,000 fixed)
Supplies	600,000 (variable)
Indirect labour	400,000 (Sh.150,000 fixed)
Depreciation	100,000 (fixed)
General support	200,000 (Sh.75,000 variable)

Required:

- (i) Using the accounts analysis method, formulate overhead cost function in the form of $Y = a + bx$ taking the number of suites produced as the cost driver. (6 marks)
- (ii) Using the equation obtained in (a) (i) above, estimate the overhead cost to be incurred assuming production turns out to be 60,000 suites. (2 marks)
- (b) Masenoku Electronics Ltd. has two production departments namely; A and B and two service departments; X and Y.

During the year ended 31 August 2021, the following budget details were agreed on by the company’s management:

	Production departments		Service departments	
	A	B	X	Y
	Sh. “000”	Sh. “000”	Sh. “000”	Sh. “000”
Direct materials cost	45,280	49,250		
Direct labour cost	50,000	45,000		
Total overheads	38,000	24,000	16,000	18,000
Production per direct labour hour (units)	25	20		

Additional information:

- The direct wages rate in both production departments is Sh.62.5 per hour.
- The service department costs are apportioned to the production departments as follows:

		Service department	
		X	Y
		(%)	(%)
Production department:	A	60	50
	B	40	50

Required:

- (i) Budgeted overheads to be absorbed by the production departments. (4 marks)
- (ii) Overhead absorption rates for each production department based on rate per unit produced and direct materials percentage. (8 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Highlight four implications of high labour turnover in a business organisation. (4 marks)
- (b) Premier Products Ltd. manufactures three products namely; A, B and C. The company uses three types of materials; E, F and G.

The following data has been assembled for the company’s budget preparation for the month of October 2021:

Sales forecast	Product A	Product B	Product C
Sales (units)	4,000	3,000	2,000
Selling price per unit (Sh.)	250	300	350

Standard material cost per kilogram:

Material	Sh.
E	8
F	10
G	12

Standard material Requirements in kilograms:

		Material		
		E	F	G
Product:	A	5	2	3
	B	3	2	4
	C	4	3	2

Inventories:

		Product			Material		
		A	B	C	E	F	G
	1 October 2021	500	1,000	1,500	25,000	20,000	15,000
	31 October 2021	1,000	1,500	2,000	35,000	30,000	25,000

Required:

For the month of October 2021, prepare:

- Sales budget in value. (3 marks)
- Production budget in units. (4 marks)
- Materials usage budget in units. (3 marks)
- Materials purchase budget in units and in value. (6 marks)

(Total: 20 marks)

QUESTION FOUR

- Outline four features of process costing technique. (4 marks)
- Lengo Ltd. manufactures a single product which passes through two processes namely; 1 and 2. The output of process 1 becoming the input of process 2. Normal losses and abnormal losses are defective units having a scrap value and cash is received at the end of the period for all such units.

The following information relates to the month of November 2021:

- Raw materials issued to process 1 was 3,000 units at a cost of Sh.50 per unit.
- There were no opening or closing work-in-progress but opening and closing stocks of finished goods were 2,000 units and 2,300 units respectively.
- Additional information on process 1 and process 2:

	Process 1	Process 2
Normal loss as a percentage of input	10%	5%
Output in units	2,800	2,600
Scrap value per unit	Sh.20	Sh.50
Additional materials	Sh.10,000	Sh.7,800
Direct wages incurred	Sh.40,000	Sh.60,000
Direct expenses incurred	Sh.100,000	Sh.140,000
Production overheads as a percentage of direct wages	75%	125%

Required:

- Process 1 account. (6 marks)
- Process 2 account. (6 marks)
- Abnormal loss account. (2 marks)
- Abnormal gain account. (2 marks)

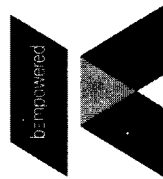
(Total: 20 marks)

QUESTION FIVE

- (a) Explain five characteristics of a good cost accounting system. (10 marks)
 - (b) List four purposes of overhead cost analysis. (4 marks)
 - (c) Describe three objectives of transport costing. (6 marks)
- (Total: 20 marks)**

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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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ATD LEVEL III

FUNDAMENTALS OF MANAGEMENT ACCOUNTING

MONDAY: 17 May 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) Describe four assumptions of cost-volume-profit (C-V-P) analysis. (4 marks)
- (b) Westwood Holdings Ltd. is a manufacturer of camping trailers. The factory is located near Kakamega town in Kenya and nearly 70% of the company's output is exported to Uganda, Rwanda and Burundi.

The fixed costs are Sh.200,000,000 per annum while the variable costs are Sh.600,000 per trailer. The trailers are sold at Sh.800,000 each.

Required:

- (i) Explain the term "contribution". (1 mark)
- (ii) The contribution made by each trailer. (2 marks)
- (iii) The number of trailers that Westwood Holdings Ltd. should sell in order to break-even. (3 marks)
- (iv) The profit to be made by Westwood Holdings Ltd. assuming 2,000 trailers are sold. (3 marks)
- (v) Due to a new entrant in the market, Westwood Holdings Ltd. is forced to lower its selling price to Sh.700,000 per trailer in the coming year.
- Evaluate the impact that this price cut will have on the company's annual profit. (4 marks)
- (vi) Summarise three limitations of the cost-volume-profit (C-V-P) analysis. (3 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Cost classification is the grouping of related costs for the purposes of cost control to facilitate cost prediction and to aid decision making. With regard to this statement, identify and explain the following bases of cost classification:

- (i) Relevance. (2 marks)
- (ii) Traceability. (2 marks)
- (iii) Controllability. (2 marks)
- (iv) Discretion. (2 marks)

- (b) Bondeni Ltd. is a manufacturing company which is divided into two production departments namely; A and B and two service cost centres X and Y.

The following is the summary of overhead costs for the month of September 2020:

	Sh.	Sh.
Works manager's salary		40,000
Power		210,000
Contribution to provident fund		90,000
Plant insurance		40,000
Depreciation of plant and machinery		200,000
Canteen expenses		120,000
Rent		60,000
Indirect wages:		
A	122,000	
B	96,000	
X	100,000	
Y	<u>50,000</u>	
		<u>368,000</u>
		<u>1,128,000</u>

The following information is also provided from the various departments:

	Department			
	Production		Service	
	A	B	X	Y
Number of employees	16	8	4	4
Area occupied (in square feet)	2,000	3,000	500	500
Value of plant (Sh.)	750,000	1,000,000	250,000	-
Wages (Sh.)	40,000	20,000	10,000	5,000
Horse power ratio	3	3	1	-

Required:

Apportion the above overhead costs to the various departments using the most suitable bases. (12 marks)
(Total: 20 marks)

QUESTION THREE

- (a) Explain two differences between "interlocking cost book keeping system" and "integrated cost book keeping system". (4 marks)
- (b) The Knickers Company manufactures rocking chairs. Budgeted sales for the first five months of the year 2021 are as follows:

	Budgeted sales (units)
January	200
February	240
March	180
April	160
May	240

Each rocking chair requires 10 square feet of Oak wood at a cost of Sh.2,000 per square foot. The company wants to maintain an inventory of chairs equal to 25% of the following month's sales. At the beginning of the year, 40 chairs were in stock.

Assume the company maintains an inventory of Oak wood equal to 10% of the next months' needs. At the beginning of the year, 240 square feet of Oak wood were in stock. Inventory of Oak wood as at 31 March 2021 is estimated to be 180 square feet.

Required:

- (i) Production budget, in units, for each of the first four months. (8 marks)
- (ii) Purchases budget, in shillings, for each of the first three months. (8 marks)
(Total: 20 marks)

QUESTION FOUR

- (a) Explain four applications of marginal costing in an organisation. (8 marks)
- (b) Modern Computers Ltd. deals in new and refurbished computers. The old computers are repaired and then sold at a slightly lower price. Repair costs have been fluctuating greatly and the management wants to establish a predictable cost relationship for cost control purposes.

The following details have been obtained from the records of the company for the past eight weeks regarding the number of computers repaired and total cost incurred:

Week	Number of computers repaired	Total cost incurred Sh."000"
1	300	232
2	200	195
3	600	320
4	500	290
5	400	248
6	450	240
7	450	230
8	350	230

Required:

Formulate the cost function in the form of $y = a + bx$ using:

- (i) The high-low method. (4 marks)
- (ii) The regression analysis method. (6 marks)
- (iii) In week 9, the company expects delivery of 550 computers to be repaired. Using the equation obtained in (b) (ii) above, estimate the total cost to be incurred. (2 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Explain three objectives of material control in an organisation. (6 marks)
- (b) Ng'arisha Chemicals Limited produces a range of products including a detergent branded "Ng'ara" which passes through three processes before completion and transfer to finished goods stock.

During the month of April 2020, data relating to Ng'ara was as follows:

	Process			Total Sh.
	1 Sh.	2 Sh.	3 Sh.	
Basic raw material (10,000 units)	6,000	-	-	6,000
Materials added	8,500	9,500	5,500	23,500
Direct wages	4,000	6,000	12,000	22,000
Direct expenses	1,200	930	1,340	3,470
Production overheads	-	-	-	16,500
Output (units)	9,200	8,700	7,900	
Expected loss (%)	10	5	10	

Additional information:

- There was no stock of work-in-progress at the beginning or at the end of any process.
- Normal process loss was scrapped as follows:

Process	Price per unit (Sh.)
1	0.2
2	0.5
3	1.0

- Production overheads are absorbed as a percentage of direct wages.

Required:

- (i) Process 1 account. (4 marks)
- (ii) Process 2 account. (4 marks)
- (iii) Process 3 account. (4 marks)
- (iv) Abnormal gain account. (2 marks)
- (Total: 20 marks)**



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ATD LEVEL III

FUNDAMENTALS OF MANAGEMENT ACCOUNTING

MONDAY: 23 November 2020.

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) Max Ltd. manufactures a product branded "Maxim". Some of the manufacturing expenses are easily identifiable as fixed or directly variable with production.

The following information relates to the first 10 months of production:

Month	Number of units produced (Sh.)	Factory overheads (Sh.)
1	1,500	800
2	2,000	1,000
3	3,000	1,350
4	2,500	1,250
5	3,000	1,300
6	2,500	1,200
7	3,500	1,400
8	3,000	1,250
9	2,500	1,150
10	1,500	800

Required:

Formulate the cost function in the form of $Y = a + bX$ using:

- (i) The high-low method. (4 marks)
- (ii) The ordinary least squares method. (8 marks)
- (b) A manufacturing company has disclosed a net loss of Sh.8,750,000 as per the cost accounting records for the year ended 31 March 2020. However, their financial accounting records disclosed a net loss of Sh.7,192,500 for the same period.

A scrutiny of the data of both sets of books of accounts revealed the following information:

	Sh.
Factory overheads (over-absorbed)	475,000
Administration overheads (under-absorbed)	327,500
Depreciation charged in financial accounts	2,250,000
Depreciation charged in cost accounts	2,422,500
Interest on investments not included in cost accounts	627,500
Income tax provided in financial accounts	72,500
Transfer fees (credit in financial accounts)	125,000
Preliminary expenses written off	275,000
Under-valuation of opening stock in cost accounts	62,500
Under-valuation of closing stock in cost accounts	175,000

Required:

A statement reconciling the net loss as per cost accounts and the net loss as per financial accounts.

(8 marks)

(Total: 20 marks)

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QUESTION TWO

- (a) Explain five differences between financial accounting and management accounting. (10 marks)
- (b) Robin Highlands Ltd. imports a high value component for its manufacturing process. The following data relating to the component, has been extracted from Robin Highlands records for the last twelve months:

Maximum usage in a month	300 units
Minimum usage in a month	200 units
Average usage in a month	225 units
Maximum lead time	6 months
Minimum lead time	2 months
Re-order quantity	750 units

Required:

- (i) Re-order level. (2 marks)
- (ii) Maximum stock level. (3 marks)
- (iii) Minimum stock level. (3 marks)
- (iv) Average stock level. (2 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Cost accounting and management accounting specialises in providing information that firm managers find useful for internal management of operations.

In light of the above statement, highlight four tasks that managers are able to perform by utilising the said information. (4 marks)

- (b) A small manufacturing firm produces a single product branded "Zed". The budgeted sales for the month of December 2020 is for 10,000 units at a selling price of Sh.2,000 per unit.

Additional information:

1. Two components of inputs are used in the production of one unit of product Zed.

Component (Input)	Number	Unit cost of each component	
		Sh.	
X	5	20	
Y	3	10	

2. Stocks at the beginning of the month are budgeted as follows:

- 4,000 units of finished goods at a unit cost of Sh.1,050
- Component X: 16,000 units at a cost of Sh.20
- Component Y: 9,600 units at a unit cost of Sh.10

3. Production of each unit of product Zed requires the following labour hours:

Department	Hours per unit	Labour rate per hour	
		Sh.	
Production	4	100	
Finishing	2	140	

4. Factory overhead is absorbed into unit cost on the basis of direct labour hours. The budgeted factory overheads for the month of December 2020 amount to Sh.1,920,000.
5. The administration, selling and distribution overheads for the month are budgeted at Sh.5,500,000.
6. The company plans a reduction of 50% in quantity of finished stock at the end of the month and an increase of 25% in the quantity of each input component.

Required:

For the month of December 2020 prepare:

- (i) Sales budget. (1 mark)
- (ii) Production quantity budget. (3 marks)
- (iii) Material usage budget. (2 marks)
- (iv) Material purchases budget. (3 marks)
- (v) Direct labour budget. (3 marks)
- (vi) Budgeted income statement. (4 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Costs for decision making could be classified according to relevance. A cost is relevant if it can be changed by a decision taken.

In reference to the above statement and using suitable examples, explain the meaning of the following costs and state whether they are relevant or not relevant for decision making:

- (i) Sunk cost. (3 marks)
- (ii) Opportunity cost. (3 marks)

- (b) Evanda Ltd. operates three segments. The income statement below for the segments imply that the company could improve profitability if segment X is eliminated.

Income statement for the year ended 31 March 2020:

Segment	X Sh. "000"	Y Sh. "000"	Z Sh. "000"
Sales	87,000	210,000	200,000
Cost of goods sold	(67,000)	(82,000)	(85,000)
Sales commission	(12,000)	(22,000)	(20,000)
Contribution margin	8,000	106,000	95,000
General fixed overheads	(20,000)	(20,000)	(20,000)
Advertising expenses	(6,000)	(18,000)	-
Net income	(18,000)	68,000	75,000

Additional information:

- The general fixed overheads relates to the salary of the Chief Executive Officer (CEO) which has been allocated equally to the segments.
- The advertising expenses are specific to the individual segments.

Required:

- Prepare comparative income statements for the company as a whole under the two alternatives, that is, when segment X is retained and when segment X is eliminated. (10 marks)
 - Advise the management of Evanda Ltd. the effect on profitability assuming segment X is eliminated. (4 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) In the context of labour remuneration, examine six limitations of co-partnership and profit sharing scheme. (6 marks)
- (b) "NF" is an industrial lubricant which is formed by subjecting certain crude chemicals to two successive processes. The output of process 1 is passed to process 2 where it is blended with other chemicals.

The process cost for the month of April 2020 were as follows:

Process 1

Material:	3,000 kgs at Sh.25 per kg.
Labour:	Sh.12,000
Process plant time:	12 hours at Sh.2,000 per hour

Process 2

Material:	2,000 kgs at Sh.40 per kg.
Labour:	Sh.8,400
Process plant time:	20 hours at Sh.1,350 per hour

Additional information:

- General overheads for the month of April 2020 amounted to Sh.35,700 and is absorbed into process costs based on process labour.
- The normal output of process 1 is 80% of input, while that of process 2 is 90% of input.

3. Waste matter from process 1 is sold for Sh.20 per kg while that from process 2 is sold for Sh.30 per kg.
4. The output for the month of April 2020 was as follows:
- | | |
|-----------|-----------|
| Process 1 | 2,300 kgs |
| Process 2 | 4,000 kgs |
5. There was no stock or work-in-progress at either the beginning or the end of the period.

Required:

- (i) Process 1 account. (4 marks)
- (ii) Process 2 account. (4 marks)
- (iii) Abnormal gain account. (2 marks)
- (iv) Abnormal loss account. (2 marks)
- (v) Normal loss account. (2 marks)

(Total: 20 marks)

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ATD LEVEL III

FUNDAMENTALS OF MANAGEMENT ACCOUNTING

TUESDAY: 26 November 2019.

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) Summarise six objectives of management accounting. (6 marks)
- (b) Mantex Ltd. has two production departments namely; assembly and finishing. The company has been using a plantwide predetermined overhead rate based on direct labour hours.

The following estimates were made for the year ended 30 June 2019:

	Assembly	Finishing	Total
Manufacturing overheads (Sh.)	200,000	100,000	300,000
Direct labour hours	40,000	35,000	75,000
Machine hours	5,000	16,000	21,000

Mantex Ltd. started and completed Job I005 during the year. The job order cost sheet indicated the following:

Material requisitioned	Sh.18,000
Direct labour cost	Sh.16,000
Direct labour hours:	
Assembly	1,700
Finishing	1,300
Machine Hours:	
Assembly	1,000
Finishing	700

A total of 2,000 units were produced on Job I005.

Required:

Determine the total cost and the unit cost for each of the 2,000 units produced by Job I005 assuming that Mantex Ltd. uses:

- (i) A plantwide predetermined overhead rate based on direct labours. (6 marks)
- (ii) Separate department overhead rates, based on direct labour hours for assembly department and machine hours for finishing department. (8 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Explain four advantages of using simple linear regression analysis method. (8 marks)
- (b) Safiri Tours and Travel Ltd. operates tourist travel services in the game parks around East Africa. The company is in the process of purchasing a tour van. The following details relating to the van are provided:

	Sh.
Cost of the van	5,500,000
Trade-in price after 2 years or 60,000 Kilometres is expected to be	1,500,000
Spare parts per 1,000 kilometres	20,000
Maintenance every 6 months costing	60,000
Vehicle licence per annum	80,000
Insurance per annum	150,000

Additional information:

1. The company purchases petrol in barrels at a cost of Sh.1,900 per barrel.
2. The average mileage per barrel is 25 kilometres.

Required:

A cost analysis schedule for mileages of 5,000, 10,000, 15,000 and 30,000 kilometres per annum showing the following details:

- | | | |
|-------|------------------------------|-----------|
| (i) | Total variable cost. | (2 marks) |
| (ii) | Variable cost per kilometre. | (2 marks) |
| (iii) | Total fixed cost. | (2 marks) |
| (iv) | Fixed cost per kilometre. | (2 marks) |
| (v) | Total cost. | (2 marks) |
| (vi) | Total cost per kilometre. | (2 marks) |

(Total: 20 marks)

QUESTION THREE

(a) Citing appropriate examples, explain the meaning of the following terms as used in cost classification:

- | | | |
|------|-------------------|-----------|
| (i) | Imputed cost. | (3 marks) |
| (ii) | Incremental cost. | (3 marks) |

(b) Jane Atieno has developed a new product that she has decided to produce and market. To proceed with the project, Jane will have to quit her present job, where she earns Sh.300,000 per month.

Jane has found premises to rent for Sh.50,000 per month that will house the production facilities. In addition, she will lease equipment that will be used to manufacture the product, at Sh.10,000 per month.

Jane had purchased all other required tools five years ago for Sh.150,000. Material costs to make the product are estimated at Sh.300 per unit while monthly advertising costs for the product are estimated at Sh.60,000.

Required:

Complete the chart below by placing an "X" under each heading that helps to identify the costs involved. There can be "Xs" placed under more than one heading for a single cost.

	Opportunity cost	Sunk cost	Variable cost	Fixed Cost	Prime cost	Conversion cost	Period cost	Differential cost
Rent for building								
Original cost of tools								
Equipment leased								
Material cost								
Present salary								
Advertising								

(7 marks)

(c) Bullock Ltd. assembles bicycles for sale in the local market. They produce 4,050 bicycles annually.

The tyres used in these bicycles (2 for each bicycle) are purchased from an outside supplier at a unit cost of Sh.450. The annual holding cost is 10% of the value per tyre while the cost of making an order from the supplier is Sh.1,000.

Required:

- (i) Determine the number of the tyres that should be ordered in each order if the relevant costs are to be minimised. (4 marks)
- (ii) Calculate the minimum total relevant cost if orders are made according to the plan established in (c) (i) above. (3 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) The standard cost per unit of product "J" manufactured by Design Manufacturing Ltd. is provided below:

	Sh.
Direct material	120
Direct labour	130
Variable overheads	150
Fixed overheads	<u>200</u>
Total production cost	600
Standard profit	<u>150</u>
Selling price	<u>750</u>

Additional information:

1. The actual data for the month of October 2019 was as follows:

	Units
Opening stock	14,000
Closing stock	12,500
Sales (Sh.700 per unit)	25,000

2. Actual fixed overheads incurred amounted to Sh.4,500,000.

Required:

Income statement using:

- (i) Marginal costing. (8 marks)
- (ii) Absorption costing. (8 marks)
- (b) Reconciliation statement for the profits obtained in (a) (i) and (a) (ii) above. (4 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) The following information was extracted from the books of Imara Ltd. from the forecasts made for the last five months of the year ended 31 December 2018:

Month	Sales Sh."000"	Purchases Sh."000"	Overheads Sh."000"	Depreciation Sh."000"	Wages Sh."000"
August	42,000	24,000	4,200	320	13,000
September	26,000	25,000	3,200	320	9,000
October	28,000	14,000	3,600	320	9,600
November	32,000	16,000	3,400	320	12,000
December	38,000	18,000	3,800	320	12,000

Additional information:

- All purchases are on credit and suppliers are paid two months after the date of transaction.
- 25% of the sales are on credit. Debtors are expected to settle their accounts the month after which sales took place.
- Wages are paid in cash as they become due.
- The bank balance on 1 October 2018 was estimated to be Sh.3,600,000.
- Overheads are paid in the month in which they are incurred.
- Depreciation expense is included in the overheads provided above.

Required:

Cash budget for the fourth quarter showing the months of October, November and December 2018. (12 marks)

- (b) Baraka manufacturers operate separate financial accounts and cost accounts. The cost accountant maintains the cost ledgers while the chief accountant maintains the financial ledgers.

The financial accounting profit for the year ended 30 September 2019 amounted to Sh.29,250,000 while the cost accounting profit for the same period amounted to Sh.36,270,000.

The following information relating to the year ended 30 September 2019 is provided:

1. Debenture interest of Sh.5,070,000 was paid during the year.
2. Rent of Sh.9,750,000 was received during the year.
3. Goodwill amounting to Sh.7,800,000 was written off.
4. Machinery with a net book value of Sh.5,850,000 was sold for Sh.8,190,000.
5. Notional rent charge of Sh.5,460,000 was charged in the cost accounts.
6. Discounts allowed amounted to Sh.2,730,000 while discounts received amounted to Sh.1,950,000.
7. Overheads absorbed in cost accounts amounted to Sh.78,000,000 while actual overheads incurred amounted to Sh.85,800,000
8. Valuation of stocks using two approaches are provided below:

	Financial accounts	Cost accounts
	Sh.	Sh.
Opening stock of raw materials	6,240,000	8,190,000
Opening stock of finished goods	18,330,000	16,380,000
Closing stock of raw materials	10,530,000	13,260,000
Closing stock of finished goods	15,210,000	15,600,000

Required:

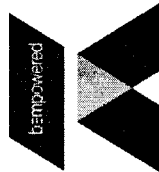
A statement reconciling the cost profit and financial profit for the year ended 30 September 2019.

(8 marks)

Total: 20 marks)

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ATD LEVEL III

FUNDAMENTALS OF MANAGEMENT ACCOUNTING

MONDAY: 20 May 2019.

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 four characteristics of a good labour remuneration system. (8 marks)
- (b) Bidii Enterprises applies an incentive scheme of labour remuneration.

The following data is provided for three employees:

Details	Jane	Peter	Anne
Time allowed per unit (Hours)	$\frac{1}{4}$	$\frac{1}{6}$	$\frac{1}{2}$
Units produced	474	684	175
Time taken (Hours)	78	72	80
Basic pay per hour (Sh.)	600	600	300
Rejected units	54	84	25

Additional information:

- Bonus is paid at 50% of the normal wage rate for every hour saved.
- No penalty is imposed on rejected output.

Required:

For each of the above employees, determine:

- (i) Bonus payable. (5 marks)
- (ii) Gross wages payable. (4 marks)
- (iii) Wages cost per unit made. (3 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Distinguish between "period costs" and "irrelevant costs". (4 marks)

- (b) AMC Ltd. manufactures three products namely; A, B and C. The processes by which they are manufactured are independent of one another and the sales of any one product are in no way affected by the prices or volume of sales of the other products.

The company's budgeted income statement is as follows:

Details	Product		
	A Sh.	B Sh.	C Sh.
Sales	30,000	20,000	150,000
Production cost:			
Variable	(16,000)	(8,000)	(96,000)
Apportioned fixed	<u>(2,000)</u>	<u>(6,000)</u>	<u>(32,000)</u>
Gross profit	12,000	6,000	22,000
Selling costs:			
Variable	(5,400)	(5,200)	(5,400)
Apportioned fixed	<u>(1,400)</u>	<u>(1,400)</u>	<u>(1,200)</u>
Net profit/(loss)	<u>5,200</u>	<u>(600)</u>	<u>15,400</u>

Required:

Advise the management of AMC Ltd. on whether Product B should be discontinued.

(8 marks)

- (c) Corneril Ltd. has a weekly demand of 16 units of Product Zed. The unit cost of Product Zed is Sh.55 while fixed cost per order is Sh.4,400.
Corneril Ltd. is financed at a cost of 20% per annum. The company works for 50 weeks in a year.

Required:

The annual total inventory costs.

(8 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Jaribu Ltd. has been facing challenges in the control of operating costs. A consultant has advised the management that they need to understand the behaviour of the costs for control purposes.

The management accountant has provided the following data which relates to the production of 250 units:

	Sh.
Direct materials cost	80,000
Direct labour cost	120,000
Indirect labour cost (fixed)	3,000
Indirect materials cost (fixed)	18,000
Depreciation cost (fixed)	7,000
Rent (fixed)	15,000

Required:

Formulate a cost function in form of $Y = a + bx$ using accounts analysis method.

(6 marks)

- (b) Kamama Ltd. operates separate cost accounting and financial accounting systems.

The following information for the year ended 30 April 2019 is available:

	Sh.
Cost of finished goods produced	512,050
Cost of goods sold	493,460
Direct materials issued	197,750
Direct wages	85,480
Production overhead (as per financial accounts)	208,220
Direct materials purchases	216,590

Additional information:

- In the cost accounts, additional depreciation of Sh.12,500 per year is to be charged.
- Production overheads are absorbed at the rate of 250% of direct wages.
- The following were the balances as at 1 May 2018:

	Sh.
Stores control account	54,250
Work-in-Progress control account	89,100
Finished goods control account	42,075

Required:

- Stores control account. (3 marks)
- Work-in-Progress control account (5 marks)
- Finished goods control account (3 marks)
- Production overhead control account. (3 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Identify four differences between job order costing and process costing. (8 marks)

- (b) BetterCare Ltd. is a health facility that operates two branches in the country namely; Tibu and Afya.

For the month of April 2019, the following information was available:

	Branch	
	Tibu	Afya
Number of beds	780	500
Number of inpatients	23,472	8,165
Average stay (days)	7.5	19
Number of outpatients	216,500	63,920

Details	Costs breakdown			
	Tibu branch		Afya branch	
	Inpatient Sh.	Outpatient Sh.	Inpatient Sh.	Outpatient Sh.
Supplies and drugs	1,821,520	693,600	1,551,350	285,450
Medical staff	8,729,100	3,308,950	6,832,700	1,975,050
Support services	2,210,500	2,563,700	1,845,380	1,591,620
General services	<u>3,524,470</u>	<u>1,721,800</u>	<u>1,937,410</u>	<u>635,600</u>
Total costs	<u>16,285,590</u>	<u>8,288,050</u>	<u>12,166,840</u>	<u>4,487,720</u>

Required:

For each branch, compute:

- (i) Cost per inpatient. (6 marks)
- (ii) Cost per outpatient. (6 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Summarise six functions of a budget committee. (6 marks)
- (b) Amwa Ltd. manufactures two products: XL and YL, using two types of materials; M and N.

The following information relates to the production activities of the company in the month of March 2019:

1. **Budgeted sales:**

Product	Quantity (Kgs.)	Price per unit (Sh.)
XL	1,250	215
YL	3,111	302

2. **Budgeted materials to be used per unit:**

Material	M	N
Unit cost (Sh.)	90	60
Quantity (Kgs.):		
XL	6	4
YL	2	2

3. **The following inventories are expected:**

Finished products	Opening inventories (Kgs.)	Closing inventories (Kgs.)
XL	200	501
YL	443	333
Materials:		
M	221	100
N	50	155

Required:

- (i) Sales budget in value. (2 marks)
- (ii) Production budget. (4 marks)
- (iii) Material usage budget. (4 marks)
- (iv) Material purchases budget. (4 marks)

(Total: 20 marks)



ATD LEVEL III

FUNDAMENTALS OF MANAGEMENT ACCOUNTING

MONDAY: 26 November 2018.

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) XYZ Ltd. deals in the purchase and sale of hardware products. The company recorded the following transactions in relation to product JL-40 during the month of September 2018:

Date	Purchases		Sales	
	Quantity (Units)	Sh. per unit	Quantity (Units)	Sh. per unit
September 2	10,000	30.00		
4	6,000	32.00		
7			10,000	40.00
12	8,000	31.00		
15			3,000	42.00
17			6,000	41.00
24	10,000	28.00		
28	5,000	30.50		
29			9,000	40.00
30			5,000	40.50

Additional information:

- The opening stock of product JL-40 on 1 September 2018 comprised 7,000 units purchased at a cost of Sh.27 per unit.
- On 9 September 2018, the company reported a shortage of 400 units.
- On 20 September 2018, 1,000 units sold on 15 September 2018 were returned by a customer.
- Operating expenses for the month of September 2018 amounted to Sh.250,000.

Required:

Using the First In First Out (FIFO) method prepare:

- Stores ledger card for product JL-40 for the month of September 2018. (8 marks)
- Income statement for product JL-40 for the month ended 30 September 2018. (4 marks)

(b) The total maintenance cost and machine hours of Jumbo Ltd. for ten months were as follows:

Month	Machine Hours	Maintenance Cost Sh. "000"
January	400	960
February	240	880
March	80	480
April	400	1,200
May	320	800
June	240	640
July	160	560
August	480	1,200
September	320	880
October	160	440

Required:

Using the least squares method, formulate the cost function.

(8 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Explain the following terms as used in management accounting:
- (i) Cost audit. (2 marks)
 - (ii) Continuous costing. (2 marks)
 - (iii) Conversion costs. (2 marks)
- (b) Generations Ltd. base their inventory levels at cost and sales value at the end of each month.

The following information relates to the months of September 2018 to December 2018:

	Opening inventory Sh.	Sales Sh.
September	687,500	-
October	550,000	1,100,000
November	675,000	875,000
December	600,000	1,050,000

Additional information:

1. The cost of goods sold is 60% of sales.
2. Purchases for the months of August 2018 and September 2018 were Sh.625,000 and Sh.450,000 respectively.
3. Payment for each month's purchases were made as follows:
 - 10% during the month of purchase.
 - 80% the following month of purchase.
 - Balance after two months of purchase.

Required:

For the months of October 2018 to December 2018, prepare:

- (i) Purchases budget schedule. (6 marks)
 - (ii) Purchases payment schedule. (6 marks)
- (c) Describe two uses of functional budgets. (2 marks)

(Total: 20 marks)

QUESTION THREE

- (a) A factory requires 1,500 units of an item per month, each costing Sh.27. The ordering cost is Sh.150 per order and the inventory carrying cost is 20 percent of the unit purchase cost. Assume a 360 day year.

Required:

- (i) Economic Order Quantity (EOQ). (2 marks)
 - (ii) The number of orders per year. (2 marks)
 - (iii) The time-lag between orders. (2 marks)
 - (iv) The total relevant cost. (2 marks)
- (b) Mauzo Ltd. manufactures an equipment which requires four components namely: A, B, C and D. The budgeted production in units and costs for each component are presented below:

	Component			
	A	B	C	D
Production (Units)	2,000	4,000	8,000	6,000
Variable cost per unit (Sh):				
Direct materials	8	10	4	8
Direct labour	16	18	8	12
Overheads	4	6	2	4
Total specific fixed cost (Sh."000")	12	10	12	30

Additional information:

1. General fixed cost amounts to Sh.60,000 per annum.
2. Mauzo Ltd. can instead of manufacturing the components, purchase one or all of them from a dealer at the price of Sh.24, Sh.42, Sh.20 and Sh.28 for components A, B, C and D respectively.

Required:

- (i) Advise Mauzo Ltd. on the component(s) that should be purchased rather than manufactured internally. (10 marks)
 - (ii) State any other factor(s) that Mauzo Ltd. should consider in the make or buy decision. (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

XL Ltd. manufactures a product that passes through three processes to completion. During the month of October 2018, the cost of production was as follows:

Cost element	Total cost	Process		
		1	2	3
	Sh.	Sh.	Sh.	Sh.
Direct materials	333,280	100,480	169,920	62,880
Direct labour	176,320	40,400	59,360	76,560
Direct expenses	18,720	187,720	-	-
Production overheads	176,320	-	-	-

Additional information:

1. 500 units at Sh.480 per unit were issued to process 1.
2. Normal loss of units per process was estimated as follows:

Process	Rate (%)
1	10
2	10
3	5
3. Losses represent scrap which could be sold to merchants at a value as follows:

Process	Sh.
1	160
2	320
3	400
4. Actual output of each process was as follows:

Process	Units
1	440
2	400
3	382
5. There was no stock of materials or work-in-progress in any process, either at the beginning or at the end of the period.
6. The output of each process passes direct to the next process and finally to finished goods stock.
7. Production overheads are allocated to each process on a basis of 100% of the cost of direct labour.

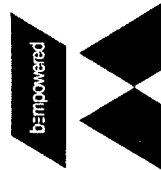
Required:

- (a) Process 1 account. (4 marks)
 - (b) Process 2 account. (4 marks)
 - (c) Process 3 account. (4 marks)
 - (d) Finished goods stock account. (2 marks)
 - (e) Abnormal loss account. (3 marks)
 - (f) Abnormal gain account. (3 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Evaluate four major challenges that might be faced by a medium sized organisation in applying budgetary control. (8 marks)
- (b) Using suitable examples, discuss the following types of costs:
- (i) Fixed costs. (3 marks)
 - (ii) Variable costs. (3 marks)
 - (iii) Step cost. (3 marks)
 - (iv) Out of pocket costs. (3 marks)
- (Total: 20 marks)**
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ATD LEVEL III

FUNDAMENTALS OF MANAGEMENT ACCOUNTING

MONDAY: 21 May 2018.

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) Highlight four characteristics of a good cost and management accounting system. (4 marks)
- (b) Brokem Ltd. manufactures three products namely; Red, Green and Yellow. The following budget information is relevant for the year ending 31 December 2018:

	Red	Green	Yellow
Selling price per unit (Sh.)	400	600	800
Variable cost per unit (Sh.)	320	480	640
Fixed cost (Sh.)	14,000,000	20,000,000	26,000,000
Maximum sales in units	350,000	150,000	500,000
Direct labour hours per unit	2	5	3
Direct materials in kilograms per unit	16	30	20

Additional information:

1. It has been estimated that the maximum direct labour hours available for the year will be 3,000,000.
2. It will not be possible to employ additional workers nor work overtime.
3. The direct materials which are imported will be limited to a total of 14,800,000 kilograms.
4. All opening and closing stocks will be nil.

Required:

- (i) Determine which will be the limiting factor for Brokem Ltd. between labour hours and direct materials for the year ending 31 December 2018. (4 marks)
- (ii) Compute the sales mix that will maximise profits for the year ending 31 December 2018. (8 marks)
- (iii) Determine the profit at the maximum sales production. (4 marks)
- (Total: 20 marks)

QUESTION TWO

- (a) Using appropriate examples, explain the following bases of cost classification:
- (i) Cost behaviour. (2 marks)
- (ii) Identity with stock. (2 marks)
- (iii) Controllability. (2 marks)
- (b) A manufacturing company has disclosed a net loss of Sh.213 million as per the cost accounting records for the year ended 31 December 2017. However, the financial accounting records disclosed a net loss of Sh.258 million for the same period.

The scrutiny of data from the two sets of accounts revealed the following information:

	Sh. "000"
Factory overheads under-absorbed	5,000
Administrative overheads over-absorbed	3,000
Depreciation charged in financial accounts	70,000
Interest on investments not included in cost accounts	20,000
Depreciation charged in cost accounts	80,000
Income tax provided in financial accounts	65,000
Transfer fees credited in financial accounts	2,000
Preliminary expenses written off in the financial accounts	3,000
Over-valuation of closing stock of finished goods in cost accounts	7,000

Required:

Prepare a memorandum reconciliation account. (6 marks)

- (c) Q Ltd. manufactures a single product and uses absorption costing method. The following data relates to the performance of the entity during the month of April 2018:

	Sh. "000"
Profit	37,000
Over-absorbed overheads	24,000
Sales (48,000 units)	720,000
Non-production overheads (all fixed costs)	275,000
Opening inventory	144,000
Closing inventory	162,000

Additional information:

- Units of inventory are valued at Sh.9,000 each, consisting of a variable cost of Sh.3,000 and a fixed overhead cost of Sh.6,000.
- All overhead costs are fixed costs.

Required:

- Determine the actual production overhead cost for the month of April 2018. (4 marks)
- Compute the profit that would have been reported in April 2018 if Q Ltd. had used marginal costing method. (4 marks)

(Total: 20 marks)

QUESTION THREE

- Discuss four limitations of a budgetary control system in a county government. (8 marks)
- Alltime Supplies Ltd. has approached Realtime Bank Ltd. for an overdraft facility to meet its cash requirements.

The following information is provided:

Month	Sales (Sh.)	Purchases (Sh.)	Wage (Sh.)
June 2018	1,800,000	2,000,000	200,000
July 2018	2,600,000	3,000,000	400,000
August 2018	3,000,000	2,600,000	600,000
September 2018	4,000,000	4,200,000	800,000
October 2018	4,200,000	4,000,000	1,000,000
November 2018	4,800,000	4,600,000	1,200,000
December 2018	5,000,000	4,000,000	1,200,000

Additional information:

- 50% of credit sales are realised in the month following the sales and the remaining 50% in the second month following the sales.
- 75% of purchases are cash purchases. The balance is credit purchases. Creditors are paid in the month following the month of purchase.
- Monthly rent payment is Sh.50,000.
- Overheads are 10% of purchases, paid in cash in the same month.

5. Advance income tax is usually paid in the month of November every year.
6. Bonus payable to workers relating to the previous year amounts to Sh.1,200,000. The management has decided to pay Sh.1,000,000 of the bonus during the month of October 2018 and the balance to be paid in December 2018.
7. Plant and machinery costing Sh.500,000 shall be purchased during the month of September 2018. However, this payment shall be paid in October 2018. Additional installation expenses amounting to Sh.50,000 are payable in November 2018.
8. Interest on 12% of Sh.500,000 debentures is received by Alltime Supplies Ltd. in the month of September every year.
9. The company's books of account reflect an existing overdraft with Realltime Bank Ltd. The accountant to the company forecasts the balance of the overdraft at Sh.200,000 as at 1 September 2018.
10. The bank has stipulated the condition that the amount of overdraft at the end of November 2018 should not exceed Sh.5,000,000. For any excess amount, the directors have agreed to give a loan to the company at the end of November 2018, where necessary.

Required:

- (i) A cash budget for the period from September 2018 to November 2018, indicating the extent of overdraft the company requires at the end of each month. (8 marks)
- (ii) Determine the forecasted amount of outstanding debtors and creditors at the end of November 2018. (4 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) In the context of cost classification, differentiate between the following costs:

- (i) "Differential costs" and "opportunity costs" . (4 marks)
- (ii) "Replacement costs" and "imputed costs". (4 marks)

- (b) Tamarin Manufacturing Company has provided you with the following information about their operations for the year ending 31 March 2018:

Production	20,000 units
Sales	15,000 units

Production costs:	Sh.
Direct materials	4,800,000
Direct labour	1,200,000
Variable overheads	1,000,000
Fixed overheads	600,000

Selling and administration costs:	Sh.
Salaries (fixed)	300,000
Sales commission (variable)	200,000
Advertising and promotion (fixed)	320,000
Other costs (fixed)	480,000

Additional information:

1. The unit selling price for the company's product is Sh.500.
2. There were no stocks in the store at the beginning of the period.

Required:

Income statement using:

- (i) Marginal costing. (6 marks)
- (ii) Absorption costing. (6 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Explain the accounting treatment of normal losses and abnormal losses in process costing. (4 marks)
- (b) The following information was obtained from the books of Samid Processing Company Ltd. for the fourth quarter of the year 2017 relating to Process I:

Input of raw materials	1,000 units at Sh.200 per unit
Direct materials added	Sh.40,250
Direct wages	Sh.60,000
Production overheads	Sh.60,000
Actual output transferred to Process II	900 units
Normal loss	5%
Scrap value	Sh.80 per unit

Required:

- (i) Process I account. (8 marks)
- (ii) Normal loss account. (3 marks)
- (iii) Abnormal loss account. (3 marks)
- (c) Highlight two factors that might cause abnormal loss in (b)(iii) above. (2 marks)

(Total: 20 marks)

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ATD LEVEL III

FUNDAMENTALS OF MANAGEMENT ACCOUNTING

MONDAY: 27 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

Juventus Ltd. is a manufacturing company with three departments namely; A, B and C.

The following are the monthly budgeted overheads for the month of December 2017:

Department	Variable Overheads Sh."000"	Fixed Overheads Sh."000"
A	8,400	5,200
B	10,800	3,600
C	3,200	800

Budgeted labour hours for the month are as follows:

Department	Labour hours
A	800,000
B	1,200,000
C	400,000

The wage rates in the three departments are as follows:

Department	Wage rate per hour (Sh.)
A	9
B	6
C	8

General administration overheads are expected to be Sh.8,400,000 for the month.

Required:

- (a) The variable and fixed overheads absorption rates for each department using direct labour hour basis. (9 marks)
- (b) The administration overheads absorption rate using direct labour hour basis. (4 marks)
- (c) The following information relates to Job No. 333 received from Tevin Ltd.:

Material costs: 80 kgs at Sh.35 per kg.

Direct labour:

Department	Hours
A	50
B	120
C	26

Required:

Calculate the selling price of Job No.333 if Juventus Ltd. loads profit at 20% of the selling price. (7 marks)

(Total: 20 marks)

QUESTION TWO

- (a) In the context of cost estimation, describe three advantages of simple linear regression method. (6 marks)
- (b) Bine Ltd. operates separate cost accounting and financial accounting systems. The following is the list of opening balances as at 1 July 2016 in the cost ledger:

	Debit Sh. "000"	Credit Sh. "000"
Stores ledger control account	53,375	
Work-in-progress (W-I-P) control account	104,595	
Finished goods control account	30,780	
Cost ledger control account		188,750

Transactions during the year were as follows:

	Sh. "000"
Materials purchased	26,700
Materials issued to production	40,000
Materials issued for factory repairs	900
Factory wages paid (including indirect wages Sh.23,000,000)	77,500
Production overheads incurred	95,200
Production overheads under-absorbed and written off	3,200
Sales	256,000

Additional information:

- The company's gross profit is 25% on factory cost.
- At the end of the year work-in-progress (W-I-P) stocks increased by Sh.7,500,000.

Required:

Prepare the relevant ledger accounts.

(14 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Epitech Academy has been using their own van to transport students to and from school. The new principal feels that this arrangement is costly and proposes that the school hires out transport services.

The school accountant has provided the following data:

	Sh.
Cost of the van	3,500,000
Annual insurance	345,000
Annual repairs	220,000
Driver's monthly salary	45,000
Annual road licence	50,000
TLB levy per annum	54,000
Scrap value of the van	800,000
Tyres and tubes annual expenditure	63,000
Inspection cost per annum	5,000
Petrol cost per kilometre	68

Additional information:

- The van is estimated to cover 20,000 kilometres per year. It has an estimated useful life of 6 years.
- A new traffic rule has been issued requiring all passenger vehicles, including school vans to be fitted with speed governors and seat belts. This will cost Sh.120,000. The school plans to apportion this cost over the useful life of the van.
- Hired monthly transport will cost Sh.253,000 out of which Sh.210,000 is attributed to the van, the driver will earn a monthly salary of Sh.25,000 while the conductor who helps the children alight will earn Sh.18,000 per month.

Required:

Advise the principal of Epitech Academy on whether to use own transport or hired transport services.

(12 marks)

- (b) The following details were obtained from the books of Turbo Ltd., a manufacturing company:

	Sh.
Variable cost per unit	300
Fixed expenses	1,000,000
Selling price per unit	500

Required:

- (i) Break-even point in units. (2 marks)
(ii) The selling price per unit, if the break-even point is brought down to 4,000 units. (3 marks)
(iii) If the present sales volume is Sh.4,000,000, compute the margin of safety. (3 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Explain four types of functional budgets that could be prepared by an organisation. (8 marks)

- (b) Tesugu Ltd. is a company in the manufacturing industry. The company engages casual workers in its factory. Tesugu Ltd. has three grades of casual workers namely; skilled, semi-skilled and unskilled.

The details relating to their remuneration are as follows:

Grade	Wage rate per hour (Sh.)	Number of hours in a day	Number of workers
Skilled	450	4	125
Semi-skilled	375	6	153
Unskilled	250	8	198

During the first week of October 2017, the workers worked for only four days.

Required:

The remuneration payable to each of the three grades of workers and the take home pay per worker in each grade during the first week of October 2017. (12 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Explain three limitations of financial accounting that might be solved by management accounting. (6 marks)

- (b) Beauty Care Ltd. has for some years manufactured a product which sells for Sh.100 per unit in the domestic market. Production is carried on at two separate factories.

The budgeted profit and loss statements for both factories are given below:

	Factory A		Factory B	
	Sh.	Sh.	Sh.	Sh.
Sales at Sh.100 per unit		4,200,000		3,900,000
Materials	840,000		780,000	
Labour	1,050,000		850,000	
Production overheads	<u>620,000</u>	<u>(2,510,000)</u>	<u>632,000</u>	<u>(2,262,000)</u>
		1,690,000		1,638,000
Administration and selling cost		<u>(800,000)</u>		<u>(850,000)</u>
Net profit		<u>890,000</u>		<u>788,000</u>
Net profit to sales		21%		20%

Additional information:

1. During the year, a surprise order of 5,000 units was received and both factory managers wished to take the offer.

Factory A manager argued that he earned higher profit on sales.

2. The management has ascertained that in both factories, labour and material costs be considered variable.
3. For the purposes of arriving at a decision, it has been agreed that production overheads of Sh.420,000 and Sh.312,000 be variable for Factory A and Factory B respectively.
4. All other costs are fixed.

Required:

Advise the management of Beauty Care Ltd. on which factory should receive the order, explaining the reasons for the decision and any assumptions made. (14 marks)

(Total: 20 marks)

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ATD LEVEL III

FUNDAMENTALS OF MANAGEMENT ACCOUNTING

MONDAY: 22 May 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) The following information relates to the output levels and corresponding overhead costs for Fox Ltd. for the last four months:

Month	Output level "000" Units	Overhead cost Sh."000"
January	100	17,500
February	75	12,500
March	95	18,100
April	50	10,000

Required:

Using the high-low method:

- (i) Formulate the cost function for the above relationship. (4 marks)
- (ii) Estimate the total overhead costs associated with 120,000 units of output. (2 marks)
- (b) Tukson Ltd. manufactures a single product branded "PS". The management accountant is in the process of preparing the budgets for the third quarter for the year ending 31 December 2017.

The following information is available:

1. The production and sales forecast are as follows:

	July Units	August Units	September Units
Production	1,700	1,900	1,900
Sales	1,500	1,800	2,000

2. The unit variable cost breakdown is as follows:

	Sh.
Direct materials	1,500
Direct labour	1,000
Variable overhead	<u>500</u>
	<u>3,000</u>

3. The selling price per unit of "PS" is Sh.8,000.
4. The monthly fixed costs amount to Sh.1,600,000 payable one month in arrears.
5. The labour costs are paid in the month they are incurred.
6. Suppliers of materials give one-month credit.
7. The variable overheads are paid for in the month following production.
8. 50% of sales are on cash basis. The balance is paid in the following month.
9. The opening cash balance for the month of July 2017 is estimated at Sh.5,000,000.
10. A machine bought in May 2017 at Sh.5,000,000 is due for payment in July 2017.

Required:

Cash budget for three months ending 30 September 2017.

(14 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Explain three disadvantages of a group incentive scheme as a method of labour remuneration. (6 marks)
- (b) The management accountant of Mupe Ltd. has provided the projected sales and costs for the year commencing 1 July 2017 as follows:
- | | |
|-----------------------------------|----------------|
| Fixed costs | Sh.800,000,000 |
| Variable costs | 80% of sales |
| Number of units produced and sold | 4,000,000 |
| Selling price per unit | Sh.2,000 |

Additional information:

- The management is considering reducing the selling price in order to increase both sales and profits.
- The sales manager has submitted the following estimates of the effect of reduction.

	Reduce selling price by	Increase volume by
I	20%	20%
II	10%	15%
III	5%	10%

Required:

- (i) A worksheet to show the effect of each change on the profit. (12 marks)
- (ii) Advise the management on the best alternative to adopt. (2 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Describe four features of useful information in management accounting. (8 marks)
- (b) Exodus Ltd. manufactures three products namely; X, Y and Z. Each product is started in the machine area and completed in the finishing shop.

The direct costs associated with each product forecast for the financial period ending 30 June 2017 are as follows:

	X	Y	Z
	Sh.	Sh.	Sh.
Materials	37	30	45
Wages:			
Machine area Sh.10 per hour	20	10	20
Finishing shop Sh.8 per hour	<u>12</u>	<u>8</u>	<u>16</u>
Total	<u>69</u>	<u>48</u>	<u>81</u>

Additional information:

- There are machines in both departments and machine hours are required to complete one of each product as follows:

Product	Machine Area	Finishing shop	Budget output
	Hours	Hours	Units
X	8	1	12,000
Y	3	1	16,000
Z	<u>6</u>	<u>2</u>	<u>4,000</u>
	<u>17</u>	<u>4</u>	<u>32,000</u>

- The fixed overheads for the machine area amount to Sh.201,600.
- The fixed overheads for the finishing shop amount to Sh.189,000.

Required:

For each department, compute fixed overheads absorption rate using:

- (i) Labour hours. (3 marks)
- (ii) Machine hours. (3 marks)
- (iii) The total cost for each product using the labour hour rate. (3 marks)
- (iv) The total cost for each product using the machine hour rate. (3 marks)

(Total: 20 marks)

QUESTION FOUR

Zico Ltd. produces a single product branded “zic”. The product passes three distinct processes.

The following information relates to the month of April 2017:

	Process		
	A	B	C
	Sh.	Sh.	Sh.
Direct materials	7,800	5,940	8,886
Direct wages	6,000	9,000	12,000
Production overheads	6,000	9,000	12,000

Additional information:

1. 3,000 units at Sh.3 each were introduced to process A.
2. There was no stock of materials or work-in-progress.
3. The output of each process passes directly to the next process and finally to finished stock account.
4. The following additional data is availed by the cost accountant:

Process	Output (units)	Percentage of Normal loss to input	Value of scrap per unit (Sh.)
A	2,850	5%	2
B	2,520	10%	4
C	2,250	15%	5

Required:

- (a) Process accounts for processes A, B and C. (12 marks)
 - (b) Abnormal gain account. (2 marks)
 - (c) Normal loss account. (6 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Examine four types of costs under functional classification. (8 marks)
- (b) The management accountant of Empire Manufacturing Company provided the following information for the year ended 31 December 2016:

	January 2016	December 2016
	Sh.	Sh.
Stores in hand	32,000	45,060
Finished goods inventory	48,700	51,240
Work-in-progress	62,000	49,620
Purchases		150,000
Carriage inwards		2,260
Stores issued		138,000
Wages - Direct labour		132,000
- Indirect labour		46,800
Work expenses including power and rent		134,000
Repairs on materials in store		1,200
Cost of completed jobs		492,540
Cost of finished goods		490,000
Selling expenses		11,340
Office and administration expenses		26,500

Additional information:

1. The cost journal for the period showed rent of Sh.182,660 was allocated to work-in-progress in respect of work overheads while office overhead costs amounted to Sh.26,300.
2. The company operated integrated accounting system.

Required:

The relevant cost ledger accounts.

(12 marks)
(Total: 20 marks)

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ATD LEVEL III

FUNDAMENTALS OF MANAGEMENT ACCOUNTING

MONDAY: 21 November 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) Distinguish between the following types of costs as used in management accounting:

- (i) "Avoidable costs" and "unavoidable costs". (4 marks)
- (ii) "Product costs" and "conversion costs". (4 marks)

(b) Blade Ltd. manufactures and retails three products namely; A, B and C.

The company employs 60 direct workers who work under a group bonus scheme. The company engages three grades of workers who are paid a bonus on the excess of time allowed over time taken. The bonus is paid at 75% of the workers' base rate and is shared by the workers in proportion to the time spent on the work.

The following production data has been extracted from the company's records for the month of October 2016:

Product	Units produced	Time allowed per unit (minutes)
A	320	63
B	640	120
C	1,200	100

Grade of worker	Number of direct workers	Rate per hour (Sh.)	Hours worked per worker
1	20	300	30
2	8	270	64
3	32	240	50

Required:

- (i) Percentage of hours saved to hours worked. (4 marks)
- (ii) Bonus due to the group. (4 marks)
- (iii) Gross earnings due to the group. (4 marks)

(Total: 20 marks)

QUESTION TWO

(a) The choice of an appropriate basis of apportionment of overheads by an organisation is really a matter of judgement. A company may decide on any basis of apportioning overheads according to its own circumstances.

Required:

With reference to the above statement, outline four features of a suitable overhead apportionment basis. (4 marks)

(b) Redline Ltd. has three production departments and two service departments. For the year ended 30 June 2016, the overhead distribution summary is provided as follows:

		Sh.
Production departments:	A	800,000
	B	700,000
	C	500,000
Service departments:	1	250,000
	2	300,000

The overheads of the service departments are charged out to the production departments as follows:

Department	A	B	C	1	2
1	20%	35%	25%	-	20%
2	35%	20%	20%	25%	-

Required:

Apportion the overheads of the service departments to the production departments using direct allotment method.

(4 marks)

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- (c) Kilima Ltd. manufactures three different products; X, Y and Z, each of which requires two key materials; M1 and M2.

The following information has been provided by the sales manager:

Product	Estimated sales volume		
	X	Y	Z
	Units	Units	Units
January 2017	4,000	3,100	2,400
February 2017	4,400	3,500	2,100
March 2017	4,600	3,900	2,700

Material requirements for each product are as follows:

Product:		X	Y	Z
Material:	M1 (Kg)	8	11	15
	M2 (Kg)	6	9	11

Additional information:

- The production manager recommends that stock of raw materials at the end of each month be maintained at a level sufficient to meet 20% of the production requirements for the next month.
- The sales manager recommends that finished goods stock should be held for each product as follows:

- | | X | Y | Z |
|--|-------------|-----------|-------------|
| | 1,000 units | 500 units | 1,800 units |
| 3. Estimates of closing inventories for the month of December 2016 are as follows: | | | |

Raw materials:		Kg
	M1	2,400
	M2	4,800
Finished goods:		Units
	X	400
	Y	2,900
	Z	800

Required:

For the month of January and February 2017, prepare:

- Production budget. (4 marks)
- Material usage budget. (4 marks)
- Material purchases budget. (4 marks)

(Total: 20 marks)

QUESTION THREE

- (a) In the context of cost estimation, explain the following methods:

- High-low method. (2 marks)
- Account analysis. (2 marks)
- Engineering method. (2 marks)

- (b) Millenium Baby Care Centre Ltd. manufactures two products namely; NN and CL.

The standard cost for the two products are given below:

	NN	CL
	Sh.	Sh.
Direct materials	40	30
Direct labour	30	80
Variable overheads	20	40
Fixed overheads	<u>40</u>	<u>20</u>
	<u>130</u>	<u>170</u>

Additional information:

- The fixed overheads are based on annual production of 50,000 units of NN and 100,000 units of CL.
- The selling prices per unit of NN and CL are Sh.200 and Sh.250 respectively.
- The selling expenses consist solely of sales commission at Sh.10 per unit of each product.
- The fixed selling and administration expenses amount to Sh.1,600,000 and are apportioned to the two products.
- All the fixed overheads are common to the two products and allocation between the two products are purely arbitrary.

Required:

- (i) Assuming budget efficiency is achieved, determine the profit realised if only 80% of the production and sales budget is achieved. (6 marks)
- (ii) Break-even point in units for the company as a whole. (2 marks)
- (iii) Break-even point in units by products at standard mix. (2 marks)
- (iv) If the raw material availability is limited to Sh.4,000,000, compute the maximum profit that could be achieved. (4 marks)

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

- (a) Discuss four ways in which a management accountant might utilise cost accounting information in the organisation. (8 marks)
- (b) Genesis Enterprise manufactures an industrial product that goes through four distinct processes before the final product can emerge.

The following information is available from the cost records:

	Process I	Process II	Process III	Process IV	Total
	Sh.	Sh.	Sh.	Sh.	Sh.
Materials	1,600	2,600	2,000	1,025	7,225
Direct labour	3,500	2,250	3,680	1,420	10,850
Production overheads					7,595

Additional information:

- 500 units at Sh.4 per unit were introduced in Process I.
- Production overheads are absorbed as a percentage of direct labour cost.
- The actual output and normal loss of the respective processes are given below:

	Output (units)	Normal loss as % of input	Value of scrap per unit (Sh.)
Process I	500	-	-
Process II	450	10%	2
Process III	360	20%	3
Process IV	270	25%	5

- The actual output was as expected.

Required:

- (i) Process I account. (3 marks)
- (ii) Process II account. (3 marks)
- (iii) Process III account. (3 marks)
- (iv) Process IV account. (3 marks)

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

The following information was obtained from the financial books of Tengeneza Ltd. for the year ended 30 June 2016:

	Sh.
Direct materials consumed	250,000
Direct wages	100,000
Factory overheads	380,000
Administrative overheads	250,000
Selling and distribution overheads	480,000
Bad debts written off	20,000
Preliminary expenses written off	10,000
Legal charges	5,000
Dividends received	50,000
Interest on deposit received	10,000
Sales (120,000 units)	700,000
Closing stock:	
Finished stock (40,000 units)	120,000
Work-in-progress	80,000

Additional information:

1. Direct material consumption as per the cost accounting records amounted to Sh.280,000.
2. Factory overheads are recovered at 20% on prime cost.
3. Administrative overheads are recovered at Sh.3 per unit of production.
4. Selling and distribution overheads are recovered at Sh.4 per unit sold.

Required:

For the year ended 30 June 2016, prepare:

- | | |
|--|--------------------------|
| (a) Costing profit and loss account. | (6 marks) |
| (b) Financial profit and loss account. | (8 marks) |
| (c) Statement reconciling the profits obtained in (a) and (b) above. | (6 marks) |
| | (Total: 20 marks) |

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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:

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

Required:

- (i) Economic order quantity (EOQ). (4 marks)
- (ii) Re-order level. (2 marks)
- (iii) Minimum stock level. (2 marks)
- (iv) Maximum stock level. (2 marks)
- (v) 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 Units	QP Units
Opening inventory	Nil	Nil
Production	15,000	6,000
Sales	10,000	5,000
	Sh.	Sh.
Sales price per unit	20	30
Unit costs:		
Direct materials	8	14
Direct labour	4	2
Variable production overheads	2	1
Variable sales overheads	2	3

Additional information:

1. Fixed costs for the month were as follows:

	Sh.
• Production costs	40,000
• Administrative costs	15,000
• Sales and distribution costs	25,000

2. 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:

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

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

- (a) 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)

KASNEB

ATD LEVEL III

FUNDAMENTALS OF MANAGEMENT ACCOUNTING

PILOT PAPER

September 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) List five assumptions of economic order quantity (EOQ) model. (5 marks)
- (b) Shoes and Boots Limited sells 5760 boots in a week. The purchase price is Sh.250 per boot. The company currently orders in 12 periodic instalments. Ordering and related costs amount to Sh.12,500 per order. The stock holding cost is 20% of inventory value. The company has a 50 week working year.
- Required:**
- (i) Economic order quantity. (4 marks)
- (ii) Annual savings in total inventory cost if EOQ model is implemented. (5 marks)
- (c) Ujuzi Limited manufactures and sells product "Alpha" made from raw material "Beta". The following transactions relate to raw material "Beta" for week starting on 10 August and ending on 15 August 2015:

Date	Transaction	Quantity (Units)	Price per unit Sh.
10	Issues	600	
11	Purchases	600	36.8
12	Issues	450	
13	Purchases	450	38.4
14	Issues	600	
15	Purchases	600	41.6
15	Issues	230	

Additional information:

- Stocks available at the beginning of the week was 900 units at a price of Sh.32 per unit.
- The company uses the weighted average method.

Required:

Stores ledger card for "Beta".

(6 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Distinguish between fixed, variable and semi variable costs. (6 marks)
- (b) The following details were extracted from the records of ABC Limited for the month of July 2015:

	Sh. "000"	Sh. "000"
Direct materials		30,000
Direct labour		22,000
Production overhead: Variable	4,000	
Fixed	6,000	10,000
Selling and distribution overhead		
Variable	2,500	
Semi variable (50% fixed)	4,000	
Fixed	<u>1,000</u>	7,500
Administration overhead		
Fixed	10,000	
Semi variable (25% fixed)	<u>10,000</u>	20,000
Sales		100,000

Production and sales units were 10,000 units.

Required:

- (i) Income statement under marginal costing. (8 marks)
- (ii) Breakeven point in units and revenue. (4 marks)
- (iii) Calculate the margin of safety. (2 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Passion Fruit Processors Limited manufactures juices mixed from several fruits. The finished product is transferred to the warehouse on completion in mixing process.

The following cost data relates to the month of July 2015:

	Sh.
Raw material input: Fruits mixture (60000 Kgs.)	2,700,000
Special liquid	3,870,000
Direct wages	2,340,000
Overheads	1,350,000

Additional information:

1. Normal output of the process is 90% of input.
2. Losses in the process are sold to soap makers at Sh.90 per litre.
3. The output from the process was 55,000 litres of juice.
4. The company applies a profit margin of 40%.

Required:

- (i) Process account. (7 marks)
- (ii) Abnormal loss/gain account. (2 marks)
- (iii) The selling price per litre of juice. (3 marks)
- (b) The following cost data is available from the books of Usafi Limited for the month of July 2015 for a canteen operated by the company:

Purchases for the month:

Meat	100 Kgs.	at Sh.250 per kilogramme.
Eggs	72 trays	at Sh.200 per tray.
Vegetables	200 Kgs.	at Sh.50 per kilogramme.
Bread	200 pieces	at Sh.52.5 per piece.
Rice	150Kgs.	at Sh.100 per kilogramme.
Maize flour	25 bales	at Sh.1200 per bale.

Wages and salaries:

- 2 cooks at Sh.25,000 per month each.
- 1 counter clerk at Sh.15,000 per month.
- 5 helpers at Sh.10,000 per month each.
- 1 manager at Sh.18,000 per month (an allowance).

Consumable stores Sh.50,000 per month.
 Gas and electricity Sh.12,000 per month.
 Overheads allocated to canteen Sh.180,000 per annum.
 Company subsidy Sh.14,900 per month.

Number of meals served in a month 2,500.

Required:

Determine the cost per meal served to the employees of the company.

(8 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Autotech Enterprises Limited have given the following particulars for cash budgeting:

Month	Sales Sh. "000"	Materials Sh. "000"	Wages Sh. "000"	Overheads Sh. "000"
August	20,000	10,200	3,800	1,900
September	21,000	10,000	3,800	2,100
October	23,000	9,800	4,000	2,300
November	25,000	10,000	4,200	2,400
December	30,000	10,800	4,500	2,500

Additional information

- 10% of sales are on cash basis. Of the credit sales, 50% are collected the following month and the balance the subsequent month.
- Creditors for material purchases give two months credit.
- Overheads are paid one month in arrears.
- Dividend of Sh.1,500,000 will be paid in December.
- Machinery costing Sh.10,000,000 will be installed in September. Payment will be in monthly instalments of Sh.2,000,000 per month for five months from October.
- Proceeds from sale of old machinery will be received in October for Sh.1,000,000.
- Income tax (advance tax) of Sh.5,000,000 will be paid in October.
- Opening cash balance on 1 October was Sh.800,000. If cash balance falls below Sh.500,000, a short term loan can be arranged at an interest rate of 18% per annum. Interest is payable monthly after the month of borrowing.

Required:

Cash budget for the three months ending December 2016.

(14 marks)

- (b) A calculator manufacturing company finds that it costs Sh.625 to make a calculator but the same is available in the market at Sh.575 each with assurance of continued supply.

The cost breakdown is as follows:

	Sh. per unit
Direct materials	275
Direct labour	175
Variable production overheads	50
Fixed production overhead	<u>125</u>
	<u>625</u>

Of the fixed production overhead, 40% are specifically incurred in making the calculator. The balance will be incurred irrespective of the decision made.

Required:

- Should the company make or buy the calculator? (3 marks)
- If the supplier offered the calculator for Sh.525 per calculator, would your decision change? Explain. (1 mark)
- Explain two factors that will need to be considered before such a decision is made. (2 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) List the qualities of a good labour remuneration system. (6 marks)
- (b) Langa Limited operates an interlocking accounting system from the cost accounts. The following information was available for the month of July 2015:

	Sh.
Opening balances	
Stores control account	108,500
Work in progress control account	178,200
Finished goods control account	84,150

Transaction for the month of July 2015:

	Sh.
Cost of finished goods	1,024,100
Cost of goods sold	986,920
Direct material issued	395,500
Direct wages	170,960
Production overheads (as per financial accounts)	416,440
Direct material purchases	433,180

Additional information:

1. In the cost accounts, depreciation was Sh.25,000 per month.
2. The production overhead is absorbed at 250% of wages.

Required:

Prepare in the cost books:

- (i) Stores control account. (4 marks)
- (ii) Work in progress control account. (4 marks)
- (iii) Finished goods control account. (4 marks)
- (iv) Production overhead control account. (2 marks)

(Total: 20 marks)

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