

# KASNEB

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 availed:

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
<b>Wages:</b>			
Machine area Sh.10 per hour	20	10	20
Finishing shop Sh.8 per hour	<u>12</u>	<u>8</u>	<u>16</u>
<b>Total</b>	<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:**

- 3,000 units at Sh.3 each were introduced to process A.
- There was no stock of materials or work-in-progress.
- The output of each process passes directly to the next process and finally to finished stock account.
- 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:**

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

**QUESTION FIVE**

- Examine four types of costs under functional classification. (8 marks)
- 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:**

- 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.
- The company operated integrated accounting system.

**Required:**

- The relevant cost ledger accounts. (12 marks)
- (Total: 20 marks)**

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