



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:

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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