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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:

- The variable and fixed overheads absorption rates for each department using direct labour hour basis. (9 marks)
- The administration overheads absorption rate using direct labour hour basis. (4 marks)
- 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)