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:

1. Stocks available at the beginning of the week was 900 units at a price of Sh.32 per unit.
2. 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	1,000	7,500
Administration overhead			
	Fixed	10,000	
	Semi variable (25% fixed)	10,000	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

1. 10% of sales are on cash basis. Of the credit sales, 50% are collected the following month and the balance the subsequent month.
2. Creditors for material purchases give two months credit.
3. Overheads are paid one month in arrears.
4. Dividend of Sh.1,500,000 will be paid in December.
5. 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.
6. Proceeds from sale of old machinery will be received in October for Sh.1,000,000.
7. Income tax (advance tax) of Sh.5,000,000 will be paid in October.
8. 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	125
	625

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

Required:

(i) Should the company make or buy the calculator? (3 marks)

(ii) If the supplier offered the calculator for Sh.525 per calculator, would your decision change? Explain. (1 mark)

(iii) 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)