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CPA PART I SECTION 2

MANAGEMENT ACCOUNTING

WEDNESDAY: 19 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) Explain the following terms as used in management accounting:

- (i) Opportunity cost. (1 mark)
- (ii) Notional cost. (1 mark)
- (iii) Discretionary cost. (1 mark)
- (iv) Incremental cost. (1 mark)

(b) Kedren Ltd. manufactures a single product. During the period from January 2021 to March 2021, the following data was recorded:

Month	Output (Units)	Cost (Sh.)
January	8,240	167,590
February	8,750	173,260
March	8,100	165,772

Required:

- (i) Using the high-low method, derive a predictor equation in the form of $Y = a + bx$ for the company. (4 marks)
- (ii) Determine the total cost that would be incurred to produce 8,500 units of the product. (2 marks)

(c) Lengo Ltd. manufactures three products namely; A, B and C

The following data relates to the three products:

	Product		
	A Sh.	B Sh.	C Sh.
Selling price per unit	250	320	460
Production cost per unit:			
Variable overheads	16	20	28
Installation labour	24	32	44
Manufacturing labour	40	55	70
Raw materials	70	110	155

Additional information:

1. Highly skilled labour is required for installation of the three products in the customer's premises. A maximum of 25,000 hours of highly skilled labour are currently available at Sh.8 per hour during the production period.
2. Fixed costs for the production period are Sh.450,000.
3. The maximum demand for Products A, B and C is 2,000 units, 3,000 units and 1,800 units respectively.

Required:

- (i) The current shortfall in highly skilled labour at maximum demand. (4 marks)
- (ii) The optimal production mix. (4 marks)
- (iii) The resultant profit at the optimal production mix. (2 marks)

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

- (a) Mzalendo Ltd. operates a differential piece rate remuneration scheme for its casual labourers.

The following schedule is applied to determine employees' remuneration:

Number of units	Wage rate per unit	
	Sh.	
1 - 250	500	
251 - 500	550	
501 - 1,000	600	
Over 1,000	650	

Rhoda Bidii completed 1,650 units during the month of January 2021.

Required:

Determine the wages payable to Rhoda Bidii for the month of January 2021. (5 marks)

- (b) ZigZag Ltd. prepared the following budget for the first five months of the year 2020:

Month	Sales budget (Units)
January	10,800
February	15,600
March	12,200
April	10,400
May	9,800

Additional information:

- Inventory of finished goods at the end of every month is to be equal to 25% of sales estimate for the next month.
- On 1 January 2020, there were 2,700 units of the product on hand.
- There is no work-in-progress at the end of any month.
- The selling price per unit was estimated to be Sh.450 per unit.
- Each unit of the product requires two types of materials in the following quantities:
 - Material A: 4 Kgs.
 - Material B: 5 Kgs.
- The closing stock of materials is equal to half of the requirements of the next month's production.

Required:

For the months of February, March and April 2020, prepare:

- (i) Sales budget. (3 marks)
- (ii) Production budget. (6 marks)
- (iii) Materials usage budget in units. (6 marks)

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

- (a) Describe the three main stages of the Activity Based Costing (ABC) system. (6 marks)
- (b) Bix Ltd. re-apportions the costs incurred in two service cost centres namely; materials handling and inspection to the three production cost centres of machining, finishing and assembly.

The following are the overhead costs which have been allocated and apportioned to the five cost centres:

	Sh. "Million"
Machining	400
Finishing	200
Assembly	100
Materials handling	100
Inspection	50

Estimates of the benefits received by each cost centre are as follows:

	Machining (%)	Finishing (%)	Assembly (%)	Materials Handling (%)	Inspection (%)
Materials Handling	30	25	35	-	10
Inspection	20	30	45	5	-

Required:

Calculate the charge for overhead to each of the three production cost centres, including the amounts reapportioned from the two service centres using:

(i) The continuous allotment (repeated distribution) method. (7 marks)

(ii) The algebraic method. (7 marks)

(Total: 20 marks)

QUESTION FOUR

The following information is available for Process II of Winam Fabrications Ltd. for the month of September 2020:

Opening stock: 4,800 units valued at Sh.165,000

Degree of completion:	Materials	70%
	Labour	60%
	Overheads	60%

Additional information:

1. Transfer from Process I amounted to 30,600 units valued at Sh.306,000.

2. Additional costs incurred in Process II include:

	Sh.
Direct materials	134,400
Direct labour	394,200
Production overheads	525,600

3. The units scrapped amounted to 2,400 units with the following degree of completion:

Materials	100%
Labour	70%
Overheads	70%

4. The closing stock was 5,400 units with the following degree of completion:

Materials	60%
Labour	40%
Overheads	40%

5. Transfer to Process III amounted to 27,600 units.

6. There was a normal loss of 10% of production in the process.

7. The units scrapped were realised at Sh.10 per unit.

Required:

(a) Statement of equivalent production. (8 marks)

(b) Cost of equivalent unit for each element of cost. (6 marks)

(c) Process II account using the First-in-First Out (FIFO) method. (6 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Jeremy Awuor established a fast food business one year ago and has achieved good sales but a small profit. In a recent business networking event, he was advised to consider employing a management accountant to enhance and improve his business.

Required:

- (i) Explain to Jeremy Awuor six changes in the business environment that could have contributed to the growth and importance of management accounting in the recent past. (6 marks)
 - (ii) Describe four roles played by a management accountant that would enhance and improve Jeremy Awuor's business. (4 marks)
- (b) Highlight four advantages of maintaining integrated accounting systems in cost bookkeeping. (4 marks)
- (c) Explain three advantages and three disadvantages of implementing a Just-in-Time (JIT) system in an organisation. (Total: 20 marks)

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