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CPA PART I SECTION 2

MANAGEMENT ACCOUNTING

THURSDAY: 28 November 2019. **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) Examine three challenges that young medium-sized organisations might face when introducing cost accounting system into their operations. (6 marks)

(b) Dilica Ltd. makes and sells a single product called "Delicious". It is currently operating at 80% of full capacity, producing 112,000 units per month. The total monthly costs at the current level of operation are Sh. 611,000. At 100% capacity, total monthly costs would be Sh.695,000 while fixed costs would be the same per month at all levels of capacity between 80% and 100%.

Additional information:

1. At the normal selling price of the product, the contribution to sales ratio is 60%.
2. A new customer has offered to buy 25,000 units of the product each month at 20% below the normal selling price.
3. Dilica Ltd. estimates that for every five units that it sells to this customer, it will lose one unit of its current monthly sales to other customers.

Required:

(i) The variable cost per unit of product "Delicious" and the total fixed cost per month. (5 marks)

(ii) The current normal sales price per unit, and the contribution per unit at this price. (4 marks)

(iii) Advise the management of Dilica Ltd. on whether the offer from the new customer should be accepted. (5 marks)

(Total: 20 marks)

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QUESTION TWO

(a) Explain three types of standards as used in standard costing. (6 marks)

(b) The following information has been provided to you by the cost accountant of Lela Ltd. for the month of September 2019:

		Sh.
Balances at the beginning of the month:		
Stores ledger control account		241,750
Work-in-progress control account		192,100
Finished goods control account		341,640
Prepayments of production overheads brought forward		21,000
Transactions during the month:		
Materials purchased		761,500
Materials issued:	To Production	263,500
	For Factory maintenance	32,800
Total wages paid:	Direct	220,100
	Indirect	42,320
Direct wages charged to production		141,100
Recorded non-productive time of direct wages		52,300
Direct wages incurred in production of capital equipment		26,700
Selling and distribution overheads incurred		52,400

	Sh.
Other production overheads incurred	122,000
Sales	754,000
Cost of finished goods sold	598,300
Cost of goods completed transferred to finished goods account	621,300
Value of work-in-progress at the end of the month	243,600

Additional information:
Production overheads absorption rate is 150% of direct wages and it is the policy of the company to include a share of production overheads in the cost of capital equipment constructed in the factory.

Required:
Prepare the following accounts for the month of September 2019:

(i) Stores ledger control account. (3 marks)

(ii) Wages control account. (3 marks)

(iii) Work-in-progress control account. (3 marks)

(iv) Finished goods control account. (2 marks)

(v) Production overhead control account. (3 marks)

(Total: 20 marks)

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QUESTION THREE

(a) Explain the meaning of the following terms as used in cost estimation:

(i) Cost allocation. (2 marks)

(ii) Cost centre. (2 marks)

(iii) Cost driver. (2 marks)

(iv) Cost pool. (2 marks)

(b) Supreme Ltd. is a company that specialises in making high quality furniture to customers orders. The company has three production departments and two service departments.

Budgeted overhead costs for the year ending 30 April 2020 are as follows:

	Sh. "000"
Rent and rates	12,800
Machine insurance	6,000
Telephone charges	3,200
Depreciation	18,000
Production supervisor's salary	24,000
Heating and lighting	6,400
	70,400

The three production departments A, B and C and the two service departments X and Y are housed in new premises, the details of which, together with other statistics and information are provided below:

	Department				
	A	B	C	X	Y
Floor area occupied (square metres)	3,000	1,800	600	600	400
Machine value (Sh. "000")	240	100	80	40	20
Direct labour hours ("000")	3,200	1,800	1,000	-	-
Labour rate per hour (Sh.)	380	350	340	300	300
Allocated overheads specific to each department (Sh. "000")	2,800	1,700	1,200	800	600
Service department X costs apportioned	50%	25%	25%		
Service department Y costs apportioned	20%	30%	50%		

Required:

(i) Overheads analysis sheet showing the overhead costs budgeted for each department and the basis of apportionment used. (8 marks)

(ii) Two pieces of furniture are to be manufactured for customers. The following information relates to the two pieces of furniture:

		Job 123	Job 124
Direct materials (Sh.)		15,400	10,800
		Hours	**Hours**
Direct labour - Department:	A	20	16
	B	12	10
	C	10	14

Required:

The total production cost for each job. (4 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Explain three differences between job costing and process costing. (6 marks)

(b) Granite City Works (GCW) Ltd. is a manufacturer of cemetery headstones and architectural granite slabs. The company excavates blocks of granite from its joint processes of Quarry and Cutting. Two joint products; Cemetery monuments and Architectural granite are produced along with a by-product called "grit".

Cemetery monuments are cut, polished and engraved in a variety of standard shapes, sizes and patterns and sold to funeral homes. Architectural granite slabs are special-ordered by contractors for office buildings. These slabs are cut and polished to the exact customer's specifications. The small pieces of granite resulting from the cutting process are crushed and sold to farm-supply outlets as poultry grit.

Additional information:

1. GCW Ltd. has provided the following output and cost information:

Process	Output (Tons)	Cost (Sh. "000")
Quarry	100,000	350,000
Cutting	90,000	250,000
Monuments	25,000	300,000
Granite slabs	60,000	400,000
Grit	5,000	10,000

2. A local distributor purchases all of the grit that is produced at a price of Sh.40,000 per ton.
3. Assume that the company uses the physical units method to allocate joint costs.

Required:

The cost per ton of monuments and granite slabs, assuming that the grit is accounted for as:

(i) Other income. (8 marks)

(i) By-product revenue deducted from the main product cost. (6 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Summarise four disadvantages associated with Just-In-Time (JIT) inventory management system. (4 marks)

(b) Solhut Ltd. manufactures a product branded "PQ" which is sold at Sh.800 per unit. The variable costs per unit of product "PQ" are provided below:

	Sh.
Direct materials: M_1 (2 Kgs at Sh.20 each)	40
Direct materials: M_2 (3 Kgs at Sh.20 each)	60
Labour (2 hours at Sh.35 each)	70
Variable overheads at Sh.40 per hour	80

The management of Solhut Ltd. have estimated that for the first six months of the year ending 30 June 2020, the following quantities will be sold on credit:

Month:	January	February	March	April	May	June
Quantity (Units)	3,920	2,940	3,430	4,410	4,900	4,410

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Additional information:

1. Customers will be allowed one month's credit.
2. The closing inventory for each month is equal to 10% of the next month's sales of product "PQ".
3. Production takes place in the month of sale.
4. Materials are purchased one month before use and are paid for two months after purchase.
5. Labour and variable overheads are paid for in the month of production.
6. Fixed overhead per month are expected to be Sh.300,000 and includes depreciation of Sh.35,000. The fixed overheads are payable in the month in which they are incurred.
7. The opening cash balance as at 1 February 2020, is expected to be Sh.2,500,000.

Required:

For the months of February 2020 to April 2020, prepare:

(i) Production budget in units. (6 marks)

(ii) Cash budget. (10 marks)

(Total: 20 marks)

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