KASNEB

CPA PART I SECTION 2

MANAGEMENT ACCOUNTING

TUESDAY: 24 November 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) Describe three benefits of management accounting. (6 marks)

(b) Highlight four purposes of performance measurements. (4 marks)

(c) The net profit of Pine Ltd., a manufacturing concern for the year ended 30 September 2015 as shown by the financial accounts amounted to Sh.257,510. The cost accounts for the same period disclosed a net profit of Sh.344,800.

On examination of both sets of accounts, the following facts were discovered:

		Sh.
1.	Production overheads under-recovered in cost accounts	6,240
2.	Administrative overheads over-recovered in cost accounts	3,400
3.	Depreciation charged in financial accounts	22,400
4.	Depreciation recovered in cost accounts	25,000
5.	Interest on investments not included in cost accounts	16,000
6.	Obsolescence loss charged in financial accounts	11,400
7.	Income tax provided for in financial accounts	80,600
8.	Bank interest and dividends received in financial accounts	2,450
9.	Loss due to depreciation in stock value charged in financial accounts	13,500

Required

A reconciliation statement between the net profit as per cost accounts and as per financial accounts. (10 marks)

(Total: 20 marks)

QUESTION TWO

(a) Describe four advantages of budgetary control in an organisation. (8 marks)

(b) Tarvol Ltd. manufactures and sells a single product. The company's contribution format income statement for the year ended 31 October 2015 is given below:

	Total Sh.	Per unit Sh.	Percentage of sales
Sales (20,000 units)	1,200,000	60	100%
Variable expenses	900,000	45	?
Contribution margin	300,000	15	?
Fixed expenses	(240,000)		
Net income	60,000		

The management of the company is anxious to increase the company's profit and has asked for analysis of a number of items.

Required:

(i) Compute the company's contribution margin ratio and variable expense ratio. (4 marks)

(ii) Compute the company's break-even point both in units and in shillings. (4 marks)

(iii) Compute the increase in net operating income of the company assuming that sales will increase by Sh.400,000 in the next financial year and the cost behaviour patterns will remain unchanged. Use the contribution margin ratio obtained in (b) (i) above to compute your answer. (2 marks)

(iv) Refer to the original data. Assume that in the next financial year, the management targets the company to earn a profit of at least Sh.90,000. Compute how many units would have to be sold to meet this target profit. (2 marks)

(Total: 20 marks)

QUESTION THREE

(a) Explain three purposes of cost classification by behaviour. (6 marks)

(b) Kena Stores provided the following information in respect of their operations for the month of July 2015:

Receipts		Issues	
Date		**Date**	
3 July	600 units at Sh.60	5 July	1,600 units
7 July	1,000 units at Sh.70	12 July	400 units
18 July	2,400 units at Sh.80	20 July	1,200 units
		29 July	600 units
		31 July	200 units

Additional information:

1. Materials in store as at 30 June 2015 were 2,000 units at Sh.50.
2. On 9 July 2015, part of the materials issued on 5 July 2015 amounting to 200 units were returned.
3. On 15 July 2015, 100 units were returned to Kena Stores.
4. On 21 July 2015, there was materials wastage of 500 units.
5. Returns from a June 2015 issue of 100 units at Sh.45 was received on 25 July 2015.
6. On 28 July 2015, there was shortage of stock of 20 units.
7. Kena Stores uses the first in first out (FIFO) method to value its inventory.

Required:

A stores ledger card for Kena Stores for the month of July 2015. (14 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Respor Ltd. manufactures three products namely; A, B and C. The company has four departments namely; W, X, Y and Z. The following information relates to Respor Ltd. for the year ended 30 June 2014:

		Sh."000"
Rates		25,000
Depreciation:	Buildings	45,000
	Machinery	20,000
Maintenance of buildings		15,000
Insurance.	Buildings	5,000
	Machines	4,000
	Inventory	12,000
	Workman's compensation	4,000
Electricity:	Lighting	20,000
	Power	24,000
Supervision		60,000
Personnel, time keeping and payroll		40,000
Canteen expenses		12,000
		286,000

Departmental information:

	W	X	Y	Z
Area (square metres)	4,000	2,000	3,000	1,000
Value of machines (Sh."000")	80,000	60,000	60,000	-
Running of machines	15,000	7,000	8,000	-
Average inventory value (Sh."000")	20,000	15,000	15,000	10,000
Wages paid (Sh."000")	120,000	170,000	80,000	30,000
Number of employees	15	20	10	5

Required:

Overhead analysis sheet. (10 marks)

(b) Qui Ltd. manufactures a single product branded "Q". The standard selling price and variable cost per unit of product "Q" are as follows:

		Sh.
Selling price		136
Materials	2 kilograms at Sh.10 per kilogramme	20
Labour	3 hours at Sh.24 per hour	72

Additional information:

1. The budgeted sales for the month of October 2015 were 38,000 units.
2. The actual results for the month of October 2015 were as follows:

Production and sales	36,000 units
Selling price per unit	Sh.134
Materials (76,000 kilogrammes)	Sh.754,000
Labour (114,000 hours paid)	Sh.2,656,000

3. The company operates a standard costing system and a just-in time (JIT) purchasing and production system.

Required:

Showing applicable variances, prepare a statement that reconciles the budgeted contribution with the actual contribution for the month of October 2015. (10 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Highlight six assumptions of cost volume profit (CVP) analysis. (6 marks)

(b) Computech has two fully automated machines M1 and M2 through which metal is passed to produce stands. There are production constraints and Computech has decided to produce only one of the three stand models P, Q and R during the next financial year.

The forecasts for the next financial year are as follows:

		P	Q	R
Maximum sales (units)		7,400	10,000	12,000
Stand unit data:				
Selling price (Sh.)		900	800	1,000
Machine time:	M1 (hours)	0.25	0.15	0.3
	M2 (hours)	0.2	0.225	0.25

Additional information:

1. Maximum operating hours for machine M1 is 1,700 hours while for machine M2 is 1,920 hours.
2. Maximum quantity of metal available amounts to 17,000 metres.
3. Each stand requires 2 metres of metal.
4. The cost of metal amounts to Sh.50 per metre.
5. Variable machine overheads for machine M1 and machine M2 are Sh.500 per hour and Sh.600 per hour respectively.
6. Production capacity is dedicated to the stands only.

Required:

Advise the management of Computech on which stand to produce and sell indicating the number of units and resulting contribution. (14 marks)

(Total: 20 marks)

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