THE INSTITUTE OF CHARTERED ACCOUNTANTS (GHANA)

NOVEMBER 2005 EXAMINATIONS
(PROFESSIONAL)

MANANGEMENT ACCOUNTING
(Special Paper)

Attempt ALL Questions

TIME ALLOWED: 3 HOURS

QUESTION 1

(a) Outline six (6) objectives of a budgeting control system and explain how a budgetary control system can achieve those objectives. (16 marks)

(b) Outline four (4) uses of a Cash Budget. (4 marks)

(Total: 20 marks)

QUESTION 2

(a) It is often said that the Internal Rate of Return (IRR) as a method of capital investment appraisal has the basic weakness that it does not highlight on the absolute return on an investment so that for example a 20% return on ¢100,000,000 may be ranked higher than a 15% return on ¢100,000,000 investment.

Required:

i. Compare the NPV and IRR methods of investment appraisal stating three (3) strengths and three (3) weaknesses of each of the methods. (6 marks)

ii. Justify which of the two (2) methods will be preferred in ranking two mutually exclusive projects. (2 marks)

(b) You have been given the information below with respect to projects A and B in Mobutu Limited.

Year	**Project A Cashflow** ¢	**Project B Cashflow** ¢
0	(30,000)	(300,000)
1	7,200	69,000
2	8,640	79,200
3	10,380	91,200
4	12,420	105,000
5	14,940	120,600

Mobutu Limited has an average cost of capital of 10%.

Required:

i. Calculate Net Present Value
ii. The Internal Rate of Return. (12 marks)

(Total: 20 marks)

QUESTION 3

End Times Limited manufactures and sells a single product the standard of which is as follows:

Standards Per Unit	¢	¢
Selling price		107,200
Standard cost:		
Materials: 64 units @ ¢400	25,600	
Labour: 16 hours @ ¢300	4,800	
Overheads 16 hours @ ¢2,400	38,400	68,800
Standard Profit margin		38,400

The following information relates to the activities of End Times for the month of September 2005.

	Budgeted	Actual
Production and Sales – Units	60,000	50,000
Direct labours – hours	960,000	920,000
- wages rate	¢300/hour	¢450/hour
Fixed overheads	¢768 million	¢800 million
Variable overheads	¢1,536 million	¢1,614 million
Material – units	3,840,000	3,840,000
- price per unit	¢400	¢300

The company's actual selling price during the period of September 2005 was ¢105,000 and there were no opening and closing balances of stocks and finished goods.

End Times Limited uses absorption costing system.

Required:

(a) Prepare profit statement to ascertain the Budgeted Profit and Actual profit of End Times Limited for the month of September 2005. (6 marks)

(b) Calculate all relevant variances and reconcile the budgeted and actual profits for the period. (14 marks)

(Total: 20 marks)

QUESTION 4

Nkwa Na Ehia Limited produces a special product with the following unit cost:

Cost per Unit	¢
Direct material	7,000
Direct labour	3,500
Variable overhead	10,500
Fixed overhead	7,000
	28,000

The company's plant capacity is 1,200,000 units per annum. At present however, the company utilises only 52.5% of its capacity as a result of competition in the industry.

The normal selling price of the product is ¢42,000.

The following other costs are relevant:

> Variable selling cost per unit ¢3,500. Total fixed selling overheads per annum is ¢1,750 million.

The company received an offer from Nipa Nua Limited for the supply of 350,000 units of the product at a price of ¢24,500 each unit.

Nipa Nua agreed to pay all carriage charges to his premises as well as selling expenses.

Required:

(a) Advise Nkwa Na Ehia Limited as to whether or not the offer should be accepted justifying your advice with quantitative analysis. (8 marks)

(b) Would your decision change if the offer price were ¢21,000. (4 marks)

(c) State four (4) quantitative factors that require further consideration before a final decision can be taken. (4 marks)

(d) Explain the term 'relevant cost' as used in decision making and state four (4) examples of relevant cost. (4 marks)

(Total: 20 marks)

QUESTION 5

(a) From an accounting perspective, an organisational unit for purposes of accounting may be any one of the following:

i. a cost centre
ii. a profit centre, or
iii. an investment centre

Required:

Explain these categories and state the conditions in which each would be most appropriate if the objective is to develop efficient planning and control. (6 marks)

(b) Fast Track Limited is a divisionalised company with two divisions: namely Division A and Division B.

Below are summaries of the financial performance of the two divisions for the year ended 30/6/2005.

	Division A	**Division B**
	¢'000	**¢'000**
Sales	220,000	129,500
Profit on sale of flat	-	4,500
	220,000	134,000
Direct Labour Cost	43,500	39,750
Direct Material Cost	128,000	51,000
Depreciation	3,500	5,500
Divisional	26,500	22,750
Head Office allocated overhead	2,200	1,340
	203,700	120,340
Fixed assets (Net book values)	650,000	450,000
Stocks	117,500	90,000
Trade Debtors	100,000	105,000
Cash at Bank	75,000	-
Bank overdraft	-	37,500
Trade creditors	150,000	107,500

It is the policy of Fast Track Limited to give its Divisional Managers authority to make capital expenditure to a maximum of ¢100 million without Head Office interference. Capital expenditure in excess of this limit including disposals of capital items with book values in excess of the ¢100 million must be submitted to Central Management at Head Office for approval.

Divisional Managers have responsibility for the daily operational activities of their divisions.

The basis for appraising the performance of divisional managers is currently under review. At present Divisions are treated as Investment Centres for purposes of divisional appraisal.

The company's average cost of capital is 20%.

Required:

i. Using each of the following methods, appraise the performance of the Managers of the two divisions:
   (a) Return on capital employed
   (b) Residual Income (8 marks)

ii. State two (2) strengths and two (2) weaknesses of each of the two methods above. (4 marks)

iii. State any two further measures that may be used to assess the performance of the Divisional Manager. (2 marks)

(Total: 20 marks)