

The Institute of Chartered Accountants [Ghana]



**MAY 2005
EXAMINATIONS**

**MANAGEMENT ACCOUNTING
(Special Paper)**

Attempt All Questions

Time Allowed: 3 Hrs.

QUESTION 1

You are the Management Accountant of Lashibi Residential Home for the Elderly. The following information relates to the finances of the home.

	2002/3	2003/4
Number of in-patient days	<u>24,500</u>	<u>25,500</u>
	¢	¢
In-patient fee	18,375,000	21,037,500
Semi-Variable Costs:		
Food and Supplies	1,571,250	1,623,750
Direct Salaries	1,250,000	11,625,000
Fixed Overheads:		
Patient Service	825,000	900,000
Administration	2,250,000	2,370,000

The capital employed in the home is ¢22.5 million.

The budgets for 2003/4 are as follows:

In-patient days:	26,000
In-patient fees:	¢23,400,000

Whilst variable costs have remained constant since 2002/3, they are budgeted to rise by 10% in 2003/2004 and all fixed costs are budgeted to rise by 5% in 2003/4.

Required:

- a. Calculate the budgeted number of 'in-patient days' required during 2003/4 for the home to achieve its required return employed of 20%.

(10 marks)

- b. Having completed your budget for 2003/4, you see that a new residential home is in the process of being established in the town and is proposing to offer new staff salary levels 15% higher than

those paid at Lashibi. In response, the owner of Lashibi has estimated that to maintain budgeted demand an additional €300,000 will have to be spent on advertising campaign during 2003/4, and all direct staff salaries (whether fixed or variable) will have to be increased by a further 15% to match those of the competitor.

Identify the impact of this on Lashibi budgeted profitability for 2003/4, comparing it with 2002/3, and briefly comment on your findings.

(7 marks)

- c. What other factors, apart from cost, should be taken into account when drawing up Lashibi's budget for the coming year?

(3 marks)

(Total: 20 marks)

QUESTION 2

- a. Asuo Ltd., plans to produce and sell 8,000 sachets of sugar during the year 2003. The selling price is expected to be €30 per sachet.

1 unit of sachet requires 4 units of material A, 3 units of Material B and 2 units of Material C.

Opening stock of raw materials are as follows:

	Units	Amount €
Material A	45,000	270,000
Material B	35,000	70,000
Material C	25,000	5,000

The closing stock for each raw material is to be a level which would meet the production requirement of 7,000 sachets of sugar. There are no opening or closing stocks of sugar.

Purchase prices for all raw materials during the year 2003 are expected to be 30% higher than the prices reflected in the opening stock values.

Sales and purchases are on credit and the opening balances being as follows:

	¢
Debtors	350,000
Creditors	270,000

The Company expects to receive ¢525,000 from debtors during the period and to pay ¢235,000.

Required:

- i. Prepare a budget for raw material purchases.
 - ii. Calculate the closing balances for debtors and creditors. (12 marks)
- b. In the context of budgeting, explain the following terms:
- i. Aspiration levels. (2 marks)
 - ii. Budgetary slacks. (2 marks)
 - iii. Responsibility accounting. (2 marks)
 - iv. Zero-base budgeting. (2 marks)
- (8 marks)
(Total: 20 marks)

QUESTION 3

Mr. Mensah has just returned to the country after 20 years in exile. In order to establish himself at home, he formed a company, Mensah & Associates Ltd., located in the export processing zone. The following information is provided:

1. A feasibility study costing ¢12 million had been carried out.
2. The study suggested that a selling price of ¢5,000 per unit should be set and demand is expected to be 50,000 units per annum.
3. The directors estimate that the company will benefit from EDIF fund at a total cost of capital of 15%.

4. The manufacturer of the product will required a new machine costing €200million which will be worthless when demand for the product ceases in 4 years time.
5. The variable costs of producing the product are estimated at €3,000 per unit and an additional overheads of €25 million will be incurred each year if manufacture take place.

Assume that all cash inflows and outflows will arise on the final day of each year except the cost of the machine which will be payable at the start of the first year.

Required:

- a. Determine the worthwhileness of the project. (15 marks)
- b. Explain why Net Present Value is preferred to Internal Rate of Return in assessing Projects. (5 marks)

QUESTION 4

- a. The following details were extracted form the books of Apio Ltd. and they are related to product Xay.

	€'000
Material costs	600
Labour costs	150
Variable overheads	50
Fixed overheads	<u>100</u>
Total cost	900
Profit	<u>300</u>
Selling price	<u>1,200</u>

Due to the general increase in petroleum products, it is expected that material costs will be increased by 10%, Labour costs by 33½% and Other costs by 20%.

You are required:

- a. to calculate the percentage increase in the selling price of Xay which would maintain the company's contribution/sales ratio. (12 marks)
- b. What is the significance of a firm's Margin of Safety. (4 marks)

- c. Explain the major limitations of break-even analysis. (4 marks)
(Total: 20 marks)

QUESTION 5

- a. Compare and contrast the considerations affecting the establishment of transfer prices in the following Organisations.
- i. A company having all units within one country. (6 marks)
 - ii. A multinational company. (6 marks)
- b. Explain the following terms used in divisional performance appraisals.
- i. Controllable Residual Income. (4 marks)
 - ii. Net Residual Income. (4 marks)
- (Total: 20 marks)**