**FINANCIAL AND MANAGEMENT ACCOUNTING 2014 –SOLUTION**

**SECTION A**

**QUESTION ONE**

Part a (One mark for explanation, one mark for the example and one mark for the geraph)

1. Variable costs:

These costs vary with the level of activity

The cost per unit will be constant

Total variable costs will change as the level of activity changes

1. Fixed costs :

These costs do not vary with the level of activity

The total costs remain the same while the cost per unit decreases if there is an increase in the level of activity

1. Semi-fixed :

These costs will remain fixed up to a certain relevant range and

The costs will go up beyond the relevant range and will then remain fixed

1. Mixed :

These contain elements of both variable and fixed costs

The variable element will vary with the changes in the level of activity

The fixed element will not change with changes in the level of activity

Part b (3 marks)

Sunk costs are those costs which have already been incurred and will no longer be used when making decisions now like depreciation while controllable costs are those costs which are within the control of the responsible manager. The manager will then be held responsible for variances in these costs.

QUESTION TWO

1. (i) Profit and loss and appropriation account

|  |  |  |
| --- | --- | --- |
|  | K’000 | K’000 |
| Sales |  | **2,220** |
| Less : Cost of goods sold |  | **(800)** |
| Gross Profit |  | **1,420** |
| Less : Expenses |  | **(310)** |
| Net profit for appropriation |  | **1,110** |
|  |  |  |
| Appropriation : |  |  |
| Salary : Zanga |  | **120** |
| Interest on capital : |  |  |
| Zannga | **150** |  |
| Wekha | **140** | 290 |
| Share of profit : |  |  |
| Zanga | **400** |  |
| Wekha | **300** | 700 |
|  |  | 1,110 |

(Half a mark for all figures in bold)

(ii) Partnership Current Accounts

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | Zanga |  | Wekha |  |  | Zanga |  | Wekha |
| Drawings |  | **420** |  | **370** | Bal b/d |  | *320* |  | *290* |
|  |  |  |  |  | Salary |  |  |  | **120** |
|  |  |  |  |  | Interest |  | **150** |  | **140** |
| Bal c/d |  | **450** |  | **480** | Profit share | | **400** |  | **300** |
|  |  | 870 |  | 850 |  |  | 870 |  | 850 |
|  |  |  |  |  |  |  |  |  |  |

**(Half mark for figures in bold and quarter mark for opening balances)**

**QUESTION TWO SOLUTIONS (for part (iii)**

Partnership agreement highlights the following: (One mark for each point up to five points)

1. How profits should be shared.
2. Whether interest should be charged on drawings
3. Whether the partners should receive interest on their outstanding capital
4. Whether the partners should receive salaries and how much
5. Shows how much interest the partners should get if they have advanced loans to the partnership

**QUESTION THREE SOLUTION**

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2011 | 2012 | 2013 |
|  |  |  |  |
| **Sales (K’000)** | **16,000** | **13,200** | **22,500** |
|  |  |  |  |
| Variable costs( Prodn) per unit (K) | 8 | 8.8 | 9.68 |
| Variable costs( Selling) per unit (K) | 4 | 4.4 | 4.84 |
| Production variable costs (K’000) | 6,400 | 5,280 | 8,712 |
| Selling Variable costs (K’000) | 3,200 | 2,640 | 4,356 |
| **Total variable costs** | **9,600** | **7,920** | **13,068** |
|  |  |  |  |
| **Contribution** | **6,400** | **4,800** | **7,200** |
|  |  |  |  |
| Fixed Production costs\* | 1,600 | 1,900 | 2,100 |
| Fixed selling overheads\* | 2,400 | 2,700 | 3,000 |
|  |  |  |  |
| **Profit** | **2,400** | **680** | **4,332** |

(One mark per figure for all figures in bold and half a mark for fixed production costs and selling overheads.)

**QUESTION FOUR**

Part a – Process Account

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |
| **Details** | **Units** | **K** | **Details** | **Units** | **K** |
| Direct materials | 50,000 | **150,000** | Output | **42,000** | **314,300** |
| Direct labour |  | **96,000** | Normal loss | **2,000** | **10,000** |
| Overheads |  | **123,200** | Abnornal loss | **6,000** | **44,900** |
|  |  | 369,200 |  |  | 369,200 |

**(one mark for all figures in bold)**

Cost per unit = (369,200- (2000\*5))/48,000 units = K7.48 per unit (2 marks)

Part b – Abnormal loss account

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |
| **Details** | **Units** | **K** | **Details** | **Units** | **K** |
| Process account | 6,000 | **44,900** | Cash | 6,000 | **30,000** |
|  |  |  | Income statement |  | 14,900 |
|  |  |  |  |  |  |
|  |  | 44,900 |  |  | 44,900 |
|  |  |  |  |  |  |

(One mark for figures in bold and two marks for the income statement entry)

**QUESTION FIVE**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Variance | Explanation (1.5 marks for explanation) | Calculation (1.5 marks ) |
|  | Direct material price | Difference between actual price and standard price | Standard price minus actual price multiplied by the actual quantity purchased |
|  | |direct material usage | Difference between standard usage and actual usage | Standard usage minus actual usage multiplied by the standard rate |
|  | Direct labour rate | Differences between standard labour rate and actual rate | Standard rate minus actual rate multiplied by the actual number of hours |
|  | Direct labour efficiency | Difference between the standard number of hours and the actual number of hours | Standard quantity minus actual number of hours multiplied by the standard rate |
|  | Variable efficiency | Difference between standard hours and the actual number of hours | Standard hours minus actual hours multiplied by the standard variable rate |

**SECTION B**

**QUESTION SIX**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Marks | Km | Km |
| Non-current assets |  |  |  |
| Property , Plant and Equipment (700+300+70-7) | 2 |  | 1,063 |
| Goodwill (290+95-(100 (SC)+25 (Pre-acqu RE)+70 (FV adj) | 2 |  | 100 |
| Intangible assets (70+45) | 1 |  | 115 |
|  |  |  | 1,278 |
| Current assets |  |  |  |
| Inventory (190+110-1 (URP) | 2 | 299 |  |
| Trade receivables (210+180-10 (intra group) | 2 | 380 |  |
| Bank | 1 | 80 |  |
|  |  |  | 759 |
| Total assets |  |  | 2,037 |
|  |  |  |  |
|  |  |  |  |
| Equity and liabilities |  |  |  |
| Equity |  |  |  |
| Share capital | 1 |  | 400 |
| Share premium | 1 |  | 110 |
| Retained Earnings (390-1 + 70% x(360-7)) | 3 |  | 636.1 |
| Equity attributable to owners of the parent |  |  | 1,146.1 |
| Non-controlling interest (95+105.9) | 2 |  | 200.9 |
| Total equity |  |  | 1,347 |
|  |  |  |  |
| Non- current liabilities – Long term loan |  |  | 400 |
| Current liabilities |  |  |  |
| Trade payables (110+70-10) | 2 | 170 |  |
| Taxes (100+20) | 1 | 120 |  |
|  |  |  | 290 |
| **Total equity and liabilities** |  |  | **2,037** |

**QUESTION SEVEN**

1. Break -even point in units

BEP = Total fixed costs/ Contribution per unit = (1,600+1,200)/(12-(4+0.8+0.2))

BEP = 400 programmes ***(3 marks)***

Sales revenue = 400\*12,000 = K4.8m ***(2 marks)***

1. Margin of safety ***(3 marks)***

MOS = (Expected units less BEP)/1280

MOS = (1,280-400/1280)\* 100%

MOS = 68.75 %

1. Number of programmes to sell if profit target (3 marks)

= (Fixed Costs+ Target Profit) / Contribution per unit

=(K1.6m + K1.2 m+K1.12m )/7000

=560 units

1. Possible implications (10 marks) :

* 6,000 units are beyond the relevant range for the company and so the assumptions made for the current relevant range may not hold true
* Variable costs may change
* Fixed costs may change
* Five years is a long period of time so the company may need to look at this on annual basis.

**QUESTION EIGHT**

1. Statement of Profit or Loss (Income Statement) for the period ended 31 December 2013

|  |  |  |  |
| --- | --- | --- | --- |
|  | Marks | K’000 | K’000 |
| Sales (1,948+15+2-12) | 1 |  | 1,953 |
| Cost of sales |  |  |  |
| Opening inventories | 0.5 | 336 |  |
| Purchases (1,324+66-48) | 1 | 1,342 |  |
| Closing inventories | 0.5 | (474) |  |
| Cost of sales | 0.5 |  | (1,204) |
| Gross profit | 0.5 |  | 749 |
|  |  |  |  |
| Expenses |  |  |  |
| Rent | 0.5 | 92 |  |
| Lighting | 0.5 | 78 |  |
| Van | 0.5 | 28 |  |
| Wages | 0.5 | 181.4 |  |
| Advertising (16.8+2.4-2.8) | 0.5 | 16.4 |  |
| Insurance (1.6+11.2-2.4) | 0.5 | 10.4 |  |
| Irrecoverable debts | 0.5 | 2 |  |
| Sundry expenses | 0.5 | 56 |  |
| Depreciation – Fixtures (30+60-9)\*30% | 0.5 | 24.3 |  |
| Depreciation – Van (80+40)\*25% | 0.5 | 30 |  |
| Loss on disposal of van (48-10) | 0.5 | 8 |  |
| Total expenses |  |  | (526.5) |
| **Net profit** | **0.5** |  | **222.5** |

1. Statement of Financial Position as at 31 December 2013

|  |  |  |  |
| --- | --- | --- | --- |
|  | Marks | K’000 | K’000 |
| Non-current assets |  |  |  |
| Van (120-30) | 1 |  | 90 |
| Fixtures and Fittings (90-33.3) | 1 |  | 56.7 |
|  |  |  | 146.7 |
| Current assets |  |  |  |
| Inventories | 0.5 | 474 |  |
| Receivables | 1 | 15 |  |
| Prepayments | 1 | 2.4 |  |
|  |  |  | 491.4 |
| **Total assets** |  |  | **638.1** |
|  |  |  |  |
| Capital (12+1.6+56+336+48+30-9-48-2.8) | 2 |  | 423.8 |
| Net profit |  |  | 222.5 |
| Drawings ((4\*50)+10) | 1 |  | (210) |
|  |  |  |  |
| Current liabilities |  |  |  |
| Payables | 0.5 | 66 |  |
| Accruals | 1 | 2.4 |  |
| Bank overdraft | 1 | 133.4 |  |
|  |  |  | 201.8 |
| **Capital and liabilities** |  |  | **638.1** |

**QUESTION NINE**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Jan | Feb | Mar | Apr |
| Revenue |  |  |  |  |
| Fees | 308,000 | 602,000 | 680,800 | 616,000 |
| Sales |  | 5,000 |  |  |
| Loan |  |  |  | 50,000 |
| **Total Income** | ***308,000*** | ***607,000*** | ***680,800*** | ***666,000*** |
|  |  |  |  |  |
| Expenses |  |  |  |  |
| Purchase of equipment |  |  | 280,000 | 220,000 |
| Purchase of consumables |  | 20,000 | 25,000 | 22,000 |
| Rent and rates | 30,000 |  |  | 30,000 |
| Sundry expenses | 60,000 | 70,000 | 70,000 | 70,000 |
| Salaries and wages | 110,000 | 110,000 | 120,000 | 120,000 |
| Taxation | 80,000 |  |  |  |
| Telephone | 12,000 |  |  | 14,000 |
| Insurance |  | 28,000 |  |  |
| Renovating buildings | 84,000 | 148,000 | 188,000 | 235,000 |
| Payables | 120,000 |  |  |  |
| **Total Expenses** | ***496,000*** | ***376,000*** | ***683,000*** | ***711,000*** |
| Net Cash /( Deficit) | (188,000) | 231,000 | (2,200) | (45,000) |
| Opening balance | (40,000) | ***(228,000)*** | ***3,000*** | ***800*** |
| Closing balance | (228,000) | 3,000 | 800 | (44,200) |

* Half a mark for all the figures not in italics
* Half mark for presentation

**QUESTION TEN**

1. Explaining terms :
2. **Authorised share capital (2 marks):**

Total share capital a limited company is authorised to issue as indicated in its memorandum and articles of association

1. **Issued share capital (2 marks):**

The total of share capital issued (allocated) to shareholders and may be less or equal to the authorised share capital.

1. Preparing journal entries:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Dr** | **Cr** |
|  |  | **Km** | **Km** |
| 1 | Bank (1) | 2,550 |  |
| Application and Allotment (1) |  | 2,550 |
| *Being receipt of application money* |  |  |
| 2 | Application and Allotment (1) | 425 |  |
| Bank (1) |  | 425 |
| *Being refund of application money to unsuccessful applicants* |  |  |
| 3 | Bank (2) | 75 |  |
| Application and Allotment (2) |  | 75 |
| *Being top up on allotment of shares* |  |  |
| 4 | Application and Allotment (2) | 2,200 |  |
| Ordinary Share Capital (1) |  | 1,000 |
| Share Premium (1) |  | 1,200 |
| *Being transfer to Ordinary share capital and Share premium* |  |  |
| 5 | Bank (1) | 1,000 |  |
| First Call (1) |  | 1,000 |
| *Being receipt of call money* |  |  |
| 6 | First Call (1) | 1,000 |  |
| Ordinary Share Capital (1) |  | 1,000 |
| *Being transfer to Ordinary share capital* |  |  |