

Examination No. \_\_\_\_\_

**THE PUBLIC ACCOUNTANTS EXAMINATION**

**COUNCIL OF MALAWI**

**2010 EXAMINATIONS**

**FOUNDATION STAGE**

**PAPER 3 : MANAGEMENT INFORMATION**

**THURSDAY 9 DECEMBER 2010**

**TIME ALLOWED : 3 HOURS  
9.00 AM - 12.00 NOON**

**INSTRUCTIONS: -**

1. You are allowed **15 minutes** reading time **before the examination begins** during which you should read the question paper and, if you wish, make annotations on the question paper. However, you are **not** allowed, **under any circumstances**, to open the answer book and start writing or use your calculator during this reading time.
2. Number of questions on paper - 7.
3. This paper is divided into Sections A and B.
4. **SIX** questions **ONLY** to be answered as follows:-  
  
**SECTION A** - Question 1 is divided into parts a – t. This is a compulsory multiple choice question and **MUST** be attempted. Indicate the correct answer for each part by circling (i), (ii), (iii) or (iv) on the specially prepared answer sheet. Fasten the answer sheet to the main answer book.
5. **SECTION B** – Answer any **FIVE** questions from this Section.
6. Formulae Sheet, Graph Paper and Financial Tables are provided.
7. **DO NOT OPEN THIS PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR**

This question paper contains 10 pages

This question paper must **not** be removed from the examination room.

**SECTION A**

**This question is a compulsory multiple choice question.**

**Answer ALL parts of this question**

1. (a) Which **one** of the following costs could not be classified as a production overhead cost in a food processing company?
- (i) the costs of factory building;
  - (ii) the salary of the factory manager;
  - (iii) the depreciation of equipment located in the materials store;
  - (iv) the cost of ingredients.
- (b) Access to storage such that each item of data is read or received in a constant time irrespective of the location in store of the previous item accessed is called:
- (i) direct access;
  - (ii) serial access;
  - (iii) sequential access;
  - (iv) location address.
- (c) The point of maximum frequency density is called:
- (i) midpoint;
  - (ii) correlation;
  - (iii) mode;
  - (iv) median.
- (d) The effect of using the last in, first out (LIFO) method of stock valuation rather than first in, first out (FIFO) method in a period of rising prices is:
- (i) to report higher profits and a higher value of closing stock;
  - (ii) to report lower profits and a lower value of closing stock;
  - (iii) to report lower profits and a higher value of closing stock;
  - (iv) to report higher profits and a lower value of closing stock.

**Continued/.....**

- (e) Absorption costing includes which of the following?
- (i) Variable and fixed costs;
  - (ii) Direct materials;
  - (iii) Direct labour;
  - (iv) Fixed costs.
- (f) The organisation of records in no particular order or sequence on the computer file is called:
- (i) random file organisation;
  - (ii) sequential file organisation;
  - (iii) indexed sequential file organisation;
  - (iv) serial file organisation.
- (g) A graph of frequency distribution is called:
- (i) an ogive;
  - (ii) a polygon;
  - (iii) a histogram;
  - (iv) a bar chart.
- (h) The processing of each transaction as it occurs is called:
- (i) batch processing;
  - (ii) transaction processing;
  - (iii) on-line processing;
  - (iv) validation.
- (i) Variable costs are conventionally deemed to:
- (i) be constant per unit of output;
  - (ii) vary per unit of output as production volume changes;
  - (iii) be constant, in total, when production volume changes;
  - (iv) vary, in total, from period to period when production is constant.

**Continued/.....**

- (j) A by-product is:
- (i) a product produced at the same time as other products which has no value;
  - (ii) a product produced at the same time as other products which requires further processing to put it in a saleable state;
  - (iii) a product produced at the same time as other products which has a relatively low value compared with the other products;
  - (iv) a product produced at the same time as other products which has a relatively low volume compared with the other products;
- (k) The value of the item which is a given way through or distribution is called:
- (i) median;
  - (ii) fractile;
  - (iii) midpoint;
  - (iv) mean.
- (l) A file that contains records which relate to individual transactions that occur from day to day is called:
- (i) master file;
  - (ii) reference file;
  - (iii) temporary file;
  - (iv) transaction file.
- (m) Which of the following best describes a controllable cost?
- (i) A cost which arises from a decision already taken;
  - (ii) A cost for which the behavior pattern can be easily analyzed to facilitate valid budgetary control comparison;
  - (iii) A cost which can be influenced by its budget holder;
  - (iv) A specific cost of an activity or business which would be avoided if the activity or business did not exist.

**Continued/.....**

- (n) Additional stock which is held as an insurance against above average demand during the lead time is called:
- (i) Buffer stock;
  - (ii) Lead stock;
  - (iii) Free stock;
  - (iv) Economic Order Quantity.
- (o) A company employs four supervisors to oversee the factory production of all its products. The salaries paid to these supervisors are:
- (i) A direct labour cost;
  - (ii) A production overhead;
  - (iii) A direct production expense;
  - (iv) An administration overhead.
- (p) A cost centre is:
- (i) a unit of output or service for which costs are ascertained;
  - (ii) a segment of the organisation for which budgets are prepared;
  - (iii) a function or location for which costs are ascertained;
  - (iv) an amount of expenditure attributable to a particular activity.
- (q) An agreed set of operational procedures governing the format of data being transferred, and the signals initiating, controlling and terminating the transfer is called:
- (i) packet switching;
  - (ii) integrated systems digital network;
  - (iii) multiplexar;
  - (iv) protocol.

**Continued/.....**

- (r) Marginal costing gives a different profit to absorption costing when:
- (i) all production costs are fixed;
  - (ii) opening and closing stocks are different;
  - (iii) all production costs are variable;
  - (iv) there are no opening or closing stocks.
- (s) The margin of safety is:
- (i) the difference between budgeted sales and the breakeven sales;
  - (ii) the difference between actual sales and budgeted sales;
  - (iii) sales minus variable costs;
  - (iv) the difference between zero sales and breakeven sales.
- (t) Check digit variation is:
- (i) the process of checking invoices for correct calculations;
  - (ii) to enable codes to be self-indexing;
  - (iii) the encoding of invoices with internal codes;
  - (iv) a method of making code numbers self-checking.

**1 Mark each**  
**(TOTAL : 20 MARKS)**

**Continued/.....**

**SECTION B****Answer FIVE questions ONLY from this Section**

2. (a) The collection of data and its subsequent input to the computer are often areas of problem in data processing. Data collection and preparation for input can be lengthy and expensive operations.

**Required:**

State **five** factors which you would consider when selecting the most appropriate input method. **5 Marks**

- (b) Identify and explain **four** data security measures which should be applied in a computer system. **4 Marks**

- (c) When choosing an accounting package, the data user would look at several features of the package to decide whether they suit the user's needs.

**Required:**

State **four** features which should be taken into account when choosing a package. **4 Marks**

- (d) Explain the following terms as used in a computer environment:

- (i) verification
- (ii) turnaround document
- (iii) utility program.

**3 Marks**  
**(TOTAL : 16 MARKS)**

**Continued/.....**

3. The following budgeted information relates to a company that sells one product:

	August 2009	September 2009
Sales	18,000 units	32,000 units
Production	25000 units	25,000 units

	K
Selling price per unit	16
Cost per unit: Material	5
Direct labour	3
Variable production cost	2

Fixed production costs K75,000 per month.

There is no opening stock and the company policy is to absorb fixed overheads on the basis of direct labour cost.

**Required:**

- (a) Prepare profit and loss statements for the months of August and September on the basis of:
- (i) Marginal costing; **5 Marks**
  - (ii) Absorption costing. **4 Marks**
- (b) Account for the differences in the profit figures for the two methods. **2 Marks**
- (c) State **three** criticisms of marginal costing when used for external reporting. **5 Marks**

**(TOTAL: 16 MARKS)**

**Continued/.....**

4. Marsh Ltd is considering the possibility of investing in a new machine. The following data have been extracted from the report relating to the project:

Cost of machine on 1 January 2010: K5,000,000

Life: 4 years to 31 December 2014

Estimated scrap value: nil

Depreciation method: straight-line

Year	Accounting Profit After tax K'000	Net Cash Flows K'000
1	1,000	500 (excluding initial cost)
2	2,500	2,000
3	2,500	2,250
4	2,000	2,250
5	-	1,000

The company's required rate of return is 15%.

**Required:**

- (a) Calculate the return that the machine would make using the following investment appraisal methods:
- (i) Payback Period **2 Marks**
  - (ii) Net Present Value (NPV) **5 Marks**
  - (iii) Internal Rate of Return (IRR) **4 Marks**
- (b) State **two** disadvantages of the payback period as a method of investment appraisal. **2 Marks**
- (c) Briefly explain the meaning of the term "internal rate of return" and comment on whether a decision on the project based on the Net Present Value in (a)(ii), above would change if the internal rate of return was used, instead. **3 Marks**

**TOTAL: 16 MARKS)**

**Continued/.....**

5. (a) State **four** main properties of the standard deviation. **4 Marks**
- (b) State **three** advantages of the arithmetic mean. **3 Marks**
- (c) The following grouped frequency distribution gives the monthly wages of 200 employees in an engineering firm:

Wages K	Number of employees
5000 and less than 5500	4
5500 and less than 6000	26
6000 and less than 6500	133
6500 and less than 7000	35
7000 and less than 7500	2

**Required:**

Calculate the following:

- (i) the mean **4½ Marks**
- (ii) the mode **1½ Marks**
- (iii) median **3 Marks**

**(TOTAL : 16 MARKS)**

6. A company needs to hold a stock item Z for sale to customers. Although the item is of relatively small value per unit, the customers' quality control requirements and the need to obtain competitive supply tenders at frequent intervals result in high procurement costs.

Basic data about item Z are as follows:

Weekly sales demand is 160 units

Cost of placing and processing a purchase order is K96.92

Cost of holding one unit of product for one year is K8.00

Lead time between placing the purchase order and receiving goods is 3 weeks

**Required:**

- (a) Calculate:
- (i) the Economic Order Quantity for item Z using the formula:

$$EOQ = \sqrt{\frac{2C_s D}{C_h}}$$

**3 Marks**

**Continued/.....**

- (ii) the frequency at which purchase orders would be placed, using the same formula given in (i) above. **1 Mark**
- (iii) the total annual procurement costs and the total annual holding costs when EOQ is used. **3 Marks**
- (b) Comment briefly on **three** problems met in determining the Economic Order Quantity. **3 Marks**
- (c) State **three** characteristics and **three** advantages of the re-order level system of inventory control. **6 Marks**

**(TOTAL: 16 MARKS)**

7. Cost classifications used in costing include:

- (i) Period costs
- (ii) Product costs
- (iii) Variable costs
- (iv) Opportunity costs

**Required:**

Explain **each** of these classifications, giving examples of the types of costs that may be included.

**(TOTAL : 16 MARKS)**

**E N D**