EXAMINATION NO.____________________

THE PUBLIC ACCOUNTANTS EXAMINATION COUNCIL OF MALAWI

2011 EXAMINATIONS

FOUNDATION STAGE

PAPER 3 : MANAGEMENT INFORMATION

WEDNESDAY 7 DECEMBER 2011 **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 will **not** be 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. This question paper must **not** be removed from the examination hall.

8. **DO NOT OPEN THIS PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR**

This question paper contains 9 pages

SECTION A

This question is a compulsory multiple choice question.
Answer ALL parts of this question

1. (a) A firm has to pay 50 tambala per unit as royalty to the inventor of a device which it manufactures and sells. The royalty charge would be classified in the firm's accounts as a:

   (i) Selling expense;

   (ii) Production overhead;

   (iii) Administrative overhead;

   (iv) Direct expense.

   (b) Significant digit codes are:

   (i) where some of the digits are part of the description;

   (ii) only used for raw materials;

   (iii) to enable a code to be self-checking;

   (iv) a means of combining expenditure and location codes.

   (c) The Last In First Out (LIFO) method of stock valuation will:

   (i) value stocks at current values;

   (ii) understate product costs in times of rising prices;

   (iii) tend to produce realistic product costs ;

   (iv) make cost comparisons between jobs easier.

   (d) The EOQ is the order quantity that:

   (i) minimises the total of carrying costs and stockout costs;

   (ii) minimises the total of carrying costs and order costs;

   (iii) minimises the total of ordering costs and stockout costs;

   (iv) minimises carrying costs.

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(e) Direct wages should always be classified:

(i) according to their actual behaviour;

(ii) as variable costs;

(iii) as fixed costs;

(iv) as semi-fixed costs.

(f) Marginal costing gives a different profit to absorption costing when:

(i) all production costs are fixed;

(ii) all production costs are variable;

(iii) there are no opening or closing stocks;

(iv) opening and closing stocks are different.

(g) Which of the following is not a relevant cost in determining the Economic Order Quantity (EOQ)?

(i) the cost of insurance based on the average level of stocks;

(ii) the salary of the buyer;

(iii) the opportunity cost of capital invested in stocks;

(iv) quantity discounts for purchases over specified quantities.

(h) Using process costing, the amount of cost transferred to Finished Goods stock is the cost of:

(i) the equivalent production for the period;

(ii) the units started and completed during the period;

(iii) the units completed during the period;

(iv) the units in the opening Finished Goods stock.

(i) Information for decision-making:

(i) concerns the alternatives possible;

(ii) deals with the future, not the past;

(iii) is concerned with the incremental costs and revenues;

(iv) is all of the above.

Continued/……

(j) The margin of safety is:

(i) sales minus variable costs;

(ii) the difference between budgeted sales and breakeven sales;

(iii) the difference between actual sales and budgeted sales;

(iv) the difference between zero sales and breakeven sales;

(k) 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.

(*l*) The value of the item which is a given way through a distribution is called:

(i) midpoint;

(ii) median;

(iii) fractile;

(iv) standard deviation.

(m) A program which performs a function that may be required by a number of other programs or in a number of circumstances is called:

(i) compiler;

(ii) utility program;

(iii) bases;

(iv) unix.

(n) A graph of a frequency distribution is called:

(i) ogive;

(ii) bar chart;

(iii) polygon;

(iv) histogram.

Continued/……

(o) The processing of each transaction as it occurs is called:

(i) transaction processing;
(ii) on-line processing;
(iii) batch processing;
(iv) validation.

(p) The organisation of records in no particular order or sequence on the computer file is called:

(i) random file organisation;
(ii) serial file organisation;
(iii) sequential file organisation;
(iv) index sequential file organisation.

(q) The point of maximum frequency density is called:

(i) median;
(ii) mean;
(iii) standard deviation;
(iv) mode.

(r) A project has an IRR of 13% and the firm's cost of capital is 15%. At the cost of capital, the NPV will be:

(i) positive;
(ii) zero;
(iii) negative;
(iv) equal to the irr.

(s) The First In First Out (FIFO) materials pricing system charges issues at:

(i) the price of the oldest batch in stock;
(ii) the price of the most recent batch in stock;
(iii) the price of the first component used in the period;
(iv) the average price of goods in stock.

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(t) Check digit variation is:

(i) the process of checking invoices for correct calculations;

(ii) to enable codes to be self-indexing;

(iii) a method of making code numbers self-checking;

(iv) the encoding of invoices with internal codes.

1 Mark each
(TOTAL : 20 MARKS)

SECTION B

Answer FIVE questions ONLY from this Section

2. (a) Define **each** of the following terms as used in inventory control:

(i) Lead time

(ii) Buffer stock

(iii) Maximum level

(v) Re-order level

(vi) Free stock **5 Marks**

(b) State **five** assumptions underlying the use of the basic Economic Order Quantity (EOQ) formula. **5 Marks**

(c) ABC Ltd trades in two stock items. Information on the two stock items is given below:

Stock item	Purchase price MK/unit	Administration cost MK/unit	Demand units	Holding cost/year % of purchase price
X	200	80	15,000 per year	13.33
Y	25	28	2,800 per year	8.00

The company's stock ordering policy is based on the EOQ.

Required:

(i) Determine the number of orders per year that the company should place for item X. **3 Marks**

(ii) Calculate the annual holding cost of the stock of item Y. **3 Marks**
(TOTAL : 16 MARKS)

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3. (a) State any **four** major assumptions behind the Cost Volume Profit (CVP) analysis. **4 Marks**

(b) The budgeted information for Zee Ltd for a period, analyzed by product, is shown below:

	Product 1	Product 2	Product 3
Sales units ('000s)	225	376	190
Selling price (MK per unit)	11.00	10.50	8.00
Variable costs (MK per unit)	5.80	6.00	5.20
Attributable fixed costs (MK'000s)	275	337	296

General fixed costs, which are apportioned to products as a percentage of the total sales value, are budgeted at K1,668,000.

Required:

(i) Calculate the budgeted profit of **each** of the products. **7 Marks**

(ii) Recalculate the budgeted profit of Zee Ltd on the assumption that Product 3 is discontinued, with no effect on the sales of the other two products. State and justify other assumptions made. **3 Marks**

(iii) Calculate the increase in the sales volume of Product 2 that is necessary in order to compensate the effect on profit of a 10% reduction in the selling price of the value of that product. **2 Marks**

(TOTAL: 16 MARKS)

4. (a) State **three** disadvantages of the Accounting Rate of Return (ARR) as a capital investment appraisal method. **3 Marks**

(b) State **two** key features of all Discounted Cash Flow methods. **4 Marks**

(c) State **four** advantages of the Payback Period method as a capital investment appraisal method. **4 Marks**

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(d) The management of a bakery is planning to purchase a new piece of equipment which would cost K2,000,000. 40,000 loaves of bread are expected to be baked in each of the 5 years of the equipment's life. The expected revenue from each loaf of bread is K40 and expected operating costs are K20.

General fixed overheads will be assigned to the equipment each year as follows:

Depreciation – K400,000
General fixed overheads – K800,000, based on 100% of operating costs

The company's cost of capital is 20%.

Required:

(i) Calculate the payback period for the equipment; **2 Marks**

(ii) Calculate the net present value (NPV) for the equipment. **3 Marks**

TOTAL: 16 MARKS)

5. (a) State **four** main properties of the range. **4 Marks**

(b) State **four** properties of the standard deviation. **4 Marks**

(c) State **four** advantages of the arithmetic mean. **4 Marks**

(d) In a quality control test, the weights of standard packages were measured to give the following grouped frequency table:

Weights in grams	Number of packages
198 and less than 199	3
199 and less than 200	8
200 and less than 201	93
201 and less than 202	148
202 and less than 203	48

Required:

Calculate the mean weight of the packages. **4 Marks**

(TOTAL : 16 MARKS)

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6. (a) Define an operating system. **1 Mark**

   (b) State any **five** tasks which are typically performed by an operating system. **5 Marks**

   (c) State any **five** factors to be considered when selecting an input method in a computer environment. **5 Marks**

   (d) Explain the term 'turnaround document' and give an example of a turnaround document. **2 Marks**

   (e) Define the following computer files:

      (i) Transaction file

      (ii) Master file

      (iii) Reference file. **3 Marks**

(TOTAL: 16 MARKS)

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7. (a) A company uses a process costing system in which the following terms arise:

(1) Conversion costs

(2) Work in progress

(3) Equivalent units

(4) Normal loss

(5) Abnormal loss

Required:

Define **each** of the above listed terms. **5 Marks**

(b) Chemical Processors Ltd manufacture powerchem using two processes, mixing and distillation. The following details relate to the distillation process for a period:

Input from mixing:	36,000kg at a cost of	K166,000
Labour for the period:		K43,800
Overheads for the period:		K29,200

There was no opening work-in-progress. Closing work-in-progress of 8,000kg was 100% complete for materials and 50% complete for labour and overheads.

The normal loss in distillation is 10% of fully complete production. The actual loss in the period was 3,600kg, fully complete, which was scrapped. Assume losses occur at an earlier stage in the production process and work in progress has reached this stage.

Required:

(i) Calculate the normal and abnormal loss for the period. **2 Marks**

(ii) Compute the value of the finished goods, abnormal loss and of the closing work-in-progress. **7 Marks**

(c) Distinguish between **joint products** and **by-products** and provide an example of each. **2 Marks**

(TOTAL : 16 MARKS)

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