

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: FINANCIAL CONCEPTS B (IOBM- D207)**

**Date: Monday, 14th May 2018**

**Time Allocated: 3 hours (08:00 – 11:00 Hours)**

**INSTRUCTIONS TO CANDIDATES**

1 This paper consists of **TWO** Sections, A and B.

2 Section A consists of 4 questions, each question carries 15 marks.

Answer **ALL** questions.

3 Section B consists of 4 questions, each question carries 20 marks. Answer **ANY TWO** questions.

4 You will be allowed **10 minutes** to go through the paper before the start of the examination, you may write on this paper but not in the answer book.

5 Begin each answer on a new page.

6 **Please write your examination number on each answer book used. Answer books without examination numbers will not be marked.**

7 All persons writing examinations without payment will risk expulsion from the Institute.

8 If you are caught cheating, you will be automatically disqualified in all subjects seated this semester.

9 DO NOT open this question paper until instructed to do so.

**SECTION A (60 MARKS)**

Answer **ALL** questions from this section

**QUESTION 1**

1. The managers of a hospital are in the process of preparing the annual budget for the next financial year using incremental budgeting. The hospital’s directors are concerned that the approach used will result in a budget that does not reflect the aims and objectives of the hospital. They have requested that the budget should be produced using zero based budgeting.

**Required:**

Explain the potential difficulties that the hospital’s managers may face when setting budgets using zero based budgeting. *(5 marks)*

1. PQ is a building supplies retailer that operates a chain of shops throughout the country. The company has grown rapidly but profits have started to fall. The company has an excellent Inventory Procurement and Management System but the accounting systems are very poor. A management accountant has recently been appointed to help improve decision making within the company. The company sells building supplies, ranging from bags of nails and screws to pre-packed kitchen units, to a wide range of customers including home owners and professional builders. The company offers a free delivery service on all orders totaling over MK 100. Within each shop there are specialist sections that have skilled staff to offer help and advice to customers. Examples include: • The “Design Station” which offers free advice on kitchen and bathroom installation and design. • The “Cutting Bay” which cuts timber to customers’ specific requirements. There is no charge for this service.

Other areas of the shop are “help yourself” where customers select their requirements from racked displays of products and then pay at the check-out points. The recently appointed management accountant was shocked to discover that the company’s pricing policy is to add a 100% mark-up to the bought in cost of all products. The management accountant has suggested that the mark-up should not be the same for all products because certain products and certain types of customer will be more costly to sell and service respectively. The management accountant has suggested that an activity based costing system should be introduced to allow Direct Product Profitability and Customer Profitability Analyses to take place.

**Required:**

1. Explain how the allocation and absorption of costs differs in activity-based costing compared to traditional absorption costing. *(4 marks)*
2. Explain how activity-based costing could help to increase the profits of PQ.

*(6 marks)*

**(Total 15 marks)**

**QUESTION 2**

(a) Outline **two** similarities and **two** differences between budgets and standards.  *(4 marks)*

(b) List **four** possible uses of standard costing. *(4 marks)*

(c) Describe how the budget manual and the budget committee can assist in the administration of the budgeting process.  *(7 marks)*

**(Total 15 marks)**

**QUESTION 3**

Zindikirani Limited manufactures a single product, Phunziro. Production operatives are paid a basic wage of K30 per hour worked, but an additional 50% premium is paid for any overtime hours. The basic working week is 38 hours.

During the month ended 30 April 2018, there were 4 weeks of production and the company employed 30 production operatives. No overtime was worked during the month and all 30 operatives worked for the full 38 hours for each of the 4 weeks of production. During the month 456 units of Phunziro were made.

**Required**

(a) Calculate the labour cost for a single unit of Phunziro made in the month ended 30 April 2018***.***  *(8 marks)*

(b) The information below relates to the hours worked by 3 production operatives during the month ended 31 May 2018.

|  |  |
| --- | --- |
| Tadala | :140 basic hours and 17 hours overtime |
| Tawina | :150 basic hours and 22 hours overtime |
| Siphiwe | :120 basic hours and 20 hours overtime |

**Required**

Calculate, separately, the total wages earned by each of the operatives Tadala, Tawina and Siphiwe during the month ended 31 May 2018. *(7 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. (i) What is a flexible budget? *(2 marks)*
2. Mention **two** advantages of preparing flexible budgets. *(4 marks)*

1. Nyamulani Limited is a small company which manufactures a single product, Dengu. The company’s directors have just received the actual results for May 2018 for comparison with the budget for the same period, set out below.

|  |  |  |
| --- | --- | --- |
| Production and sales of Dengu (units)  Sales revenue  Direct materials  Direct labour  Variable overheads (allocated on the basis of  labour hours  Fixed overheads  Total costs  Profit | Budget  40,000  K  50,000  12,000  8,000  5,000  15,000  40,000  10,000 | Actual  Results  48,000  K  55,200  16,800  10,290  5,560  16,500  49,150  6,050 |

The directors of the company are concerned about the results, particularly bearing in mind that the following operational changes were authorized after the budget for May 2018 had been prepared in the belief that they would increase the profitability of Nyamulani Limited.

1. The unit selling price of Dengu was reduced from K1.25 to K1.15 on 1 May 2018 in an attempt to increase sales.
2. To reduce operating costs, it was decided to use a cheaper but more wasteful alternative material. Thereby obtaining a 15% price reduction.
3. The hourly rate for direct labour was increased from K5.00 to K5.25 in order to encourage higher productivity. However, overtime had to be authorized during the month in order to meet demand.
4. There was a one-off sales promotion campaign costing K2,000.

**Required:**

Prepare a flexible budget which will be useful for management control purposes. *(9 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer ANY **TWO** questions from this section

**QUESTION 5**

Explain the following accounting terms and give two examples in each case.

1. Standing order
2. Day books
3. Deposit account
4. Prepayment
5. Creditors/purchases ratio (*4 marks each)*

**(Total 20 marks)**

**QUESTION 6**

Malindi Potteries is a producer of collectors’ edition plates and figurines. The company’s managers are preparing budgets for the first quarter of 2018 which is the company’s peak selling period.

(1) The following data and estimates are available for January, February and March 2018.

|  |  |  |  |
| --- | --- | --- | --- |
| Sales  Wages  Overheads | **January**  **K**  450,000  120,000  85,000 | **February**  **K**  500,000  130,000  95,000 | **March**  **K**  600,000  145,000  90,000 |

1. The following information is available in respect of materials:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Opening stock  Material usage | **January**  **K**  50,000  80,000 | **February**  **K**  35,000  90,000 | **March**  **K**  60,000  100,000 | **April**  **K**  40,000 |

1. 10% of sales are for cash and the balance is received the following month. The amount received in January for December sales is K295,000.
2. Wages are paid in the month they are incurred.
3. Overheads include K15,000 per month for depreciation. Overheads are paid for in the following month. K65,000 will be paid in January for December overheads.
4. Purchases of materials are paid for in the month of purchase.
5. Tax amounting to K250,000 will be paid in February.
6. The opening cash balance in January 2018 will be K117,500.

**Required**

1. Calculate the amount of material purchases in each of the months of January, February and March. *(4 marks)*
2. Prepare a cash budget for the period January to March 2018. *(12 marks)*
3. Mention **two** advantages of preparing cash budgets. *(4 marks)*  **(Total 20 marks)**

**QUESTION 7**

1. In the context of a material control system, explain the following processes:

(i) Continuous stocktaking;

(ii) Perpetual inventory. *(4 marks)*

(b) Mention any **four** advantages of continuous stocktaking. (*4 marks)*

(c) (i) Explain the meaning of ‘idle time’ and state how it would be charged in respect of direct production labour. *(4 marks)*

(ii) State **four** reasons why idle time occurs. *(4 marks)*

(d) (i) Explain the term ‘predetermined overhead absorption rate’ detailing the

circumstances under which it will be used. *(2 marks)*

1. Discuss **one** advantage and **one** disadvantage of basing product costs on a single blanket overhead absorption rate for the whole factory instead of separate departmental overhead absorption rates. (*2 marks)*

**(Total 20 marks)**

**QUESTION 8**

Malunga Company uses a standard marginal costing system. Data relating to Y, the only product that it manufactures are as follows:

|  |  |  |
| --- | --- | --- |
|  | **Standard cost per unit of Y** | **K** |
| Materials | 6 kg @ K10 per kg | 60 |
| Labour | 5 hours @ K9 per hour | 45 |
| Variable overhead | 6 machine hours @ $5 per machine hour | 30 |

**Total variable production cost 135**

Based on the above standard cost data the following out-turn performance report was produced for February:

|  |  |  |
| --- | --- | --- |
|  | **Budget** | **Actual** |
| Output (units) | 1,100 | 1,100 |
|  | **K** | **K** |
| Materials | 66,000 | 69,240 |
| Labour | 49,500 | 57,820 |
| Variable overheads | 33,000 | 35,000 |
| **Total variable costs** | **148,500** | **162,060** |

The Production Director has criticized the above report because “It does not give me the information I need to be able to make informed decisions. It tells me that the costs were higher but I need to be able to identify areas of responsibility”.

You have been asked to provide a statement that is better suited to the needs of the Production Director. You have obtained the following information:

**Materials:** 5,770 kg were purchased and used.

**Labour:** The standard rate of K9 per hour had not been updated to incorporate a 5% pay rise. The 5,900 hours that were paid included 460 hours of idle time.

**Variable overhead:** 6,400 machine hours were used.

**Required:**

Prepare a statement that reconciles the budget variable production cost with the actual variable production cost.

**Note:** Your statement should show the variances in as much detail as possible.

**(Total 20 marks)**

**END OF EXAMINATION PAPER**