CERTIFIED PUBLIC ACCOUNTANT

FOUNDATION LEVEL 2 EXAMINATIONS

F2.1: MANAGEMENT ACCOUNTING

MONDAY: 1 DECEMBER 2014

INSTRUCTIONS:

1. **Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
2. This examination has **seven** questions and only **five** questions are to be attempted.
3. Marks allocated to each question are shown at the end of the question.
4. Show all your workings

QUESTION ONE

Success Ltd. commenced production for the first time on 1 January 2013 making and selling one single product: "Effort". The following information has been extracted by the Management Accountant from the original budgeted data prepared for the first financial quarter as part of the company's forecast plans for this product:

Direct material per unit	5 Kg @ Frw 2,000 per Kg
Direct labour per unit	2 hrs @ Frw 10,000 per hr
Variable production overhead	Frw 12,000,000 per month
Fixed production overhead	Frw 18,000,000 per month

Each unit is sold at a fixed price of Frw 60,000

All overheads are absorbed to the products on a per unit basis and are calculated by the Management Accountant using the budgeted production level of 1,500 units per month.

For the months of January, February and March, the following data has been gathered:

	January	February	March
Units produced	1,200	1,480	1,530
Units sold	1,000	1,400	1,670

You may assume that the fixed production overheads are incurred evenly over the year and that there was no difference between budgeted and actual costs during the quarter under review.

Because the company has only commenced trading, the Management Accountant is unsure which method of costing the company should adopt for internal quarterly reporting to the directors. She has asked you to prepare the following information for the forthcoming Board meeting.

Required:

(a) Calculate the unit cost of the product using both an absorption costing and a marginal costing approach. **(3 Marks)**

(b) Prepare operating statements for the months of January, February and March using absorption costing and marginal costing. (Totals for the quarter are not required) Any under / over absorption should be clearly shown. **(14 Marks)**

(c) Briefly explain why the monthly profits reported under each costing method differ from each other and what the implications are in the long term. **(3 Marks)**

(Total: 20 Marks)

QUESTION TWO

(a) Activity-based costing is an attempt to apply costs to the activities that cause them.

(i) Explain what is meant by the term 'cost driver'. **(2 Marks)**
(ii) Explain six of the stages involved in activity-based costing. **(6 Marks)**

(b) The sole products of a company are A and B. The following manufacturing information relates to these two products:

	Product A	**Product B**
Units produced per annum	40,000	5,000
Direct material cost per unit	Frw3.00	Frw4.00
Direct labour cost per unit	Frw10.00	Frw5.00
Direct labour time per unit	1 hour	0.50 hrs
Number of set-ups per annum	40	20
Annual purchase orders for materials	80	30

Total overhead costs allocated to cost pools:

	Frw
Set-up	24,000
Purchasing	11,990
Labour supervision	34,000

Required:

Calculate the unit cost of both Product A and Product B using activity-based (ABC) costing principles. All calculations should be to two decimal places. **(12 Marks)**

Total: 20 Marks

QUESTION THREE

a) Briefly explain the following terms as used in process costing:

i) Normal loss. **(2 Marks)**

ii) Abnormal loss. **(2 Marks)**

iii) Joint products. **(2 Marks)**

b) Tina Ltd produces a detergent which passes through two processes namely mixing and refining to completion. The following data relate to the refining process for the month of June 2014.

Cost of opening stock	Frw
Materials	100,000
Labour	25,000
Overheads	60,000

During the month 20,000 units were passed from the mixing to the refining process. Costs incurred during the month were:

	Frw
Labour	125,000
Overheads	108,100
Other materials	45,300

At the end of the month 21,000 units had been completed and passed to finished goods while 4,000 were still in process having reached the following stages:

Material	100%
Labour	40%
Overheads	60%

Required:

Refining Process Account. **(14 Marks)**

Total: 20 Marks

QUESTION FOUR

Alibaba Ltd is a manufacturer of Lolypop Sweets whose standard variable cost is given below:

Direct materials (2 Kg @ Frw 3)	6
Direct labour (0.75 hours @ Frw 4)	3
Variable overheads	1

The company treats fixed costs as period costs and therefore they are not charged to products.

The following information relates to the month of March 2013.

	1/3/2013	31/3/2013
Stocks (all at standard cost)	**Frw**	**Frw**
Raw materials	12,000	6,000
Finished goods	36,000	42,500

The following information is available for the month of March 2013:

	Frw
Sales @ Frw 20 per Sweet	200,000
Material purchases @ Frw 3.50 per kg	42,000
Direct labour cost (8,000 hours)	30,000
Variable overheads	12,000
Material price variance (adverse)	21,000

The management is wondering whether they could have performed better.

Required:

Calculate the following variances in each case stating two possible causes:

a) Material usage variance **(6 Marks)**

b) Labour rate variance. **(4 Marks)**

c) Labour efficiency variance. **(4 Marks)**

d) Variable overhead expenditure variance. **(3 Marks)**

e) Variable overhead efficiency variance. **(3 Marks)**

(Total: 20 Marks)

QUESTION FIVE

For some time the L4Q Company has sold its entire output of canned goods to supermarket chains which sell them as ‘own label’ products. One advantage of this arrangement is that L4Q incurs no marketing costs, but there is continued pressure from the chain on price, and margins are tight. As a consequence, L4Q is considering selling some of its output under the L4Q brand. Margins will be better but there will be substantial marketing costs. The following information is available.

	Current year's results-2014 (adjust to 2015 cost levels)	**Forecast for 2015 (assuming all own label sales)**
Sales (millions of cans)	18	19
Sales	594	627
Manufacturing costs	430	445
Administration costs	120	120
Profit	**44**	**62**

For 2015 the unit contribution on L4Q brand sales is expected to be 33% greater than 'own label' sales, but variable marketing costs of Frw 2 million per can and fixed marketing costs of Frw 40 million will be incurred.

Required:

(a) Calculate contribution per can and total contribution for 2015 assuming that all sales will be L4Q brand. **(7 Marks)**

(b) Prepare a contribution breakeven chart for 2015 assuming that 50% of sales are 'own label' and 50% are of the L4Q brand.

Note. The breakeven point and margin of safety must be shown clearly on the chart. **(9 Marks)**

(c) (i) Comment on the positions shown by the chart and your calculation. **(2 Marks)**

(ii) Discuss what other factors management should consider before making a decision **(2 Marks)**

(Total: 20 Marks)

QUESTION SIX

Kambi Ltd is a newly established company in Asia based in Nanaimo a town rich in minerals especially copper. The company specializes in transportation and supplying of spare parts to Wansai Mining Ltd. The Company has recently grown and is boasting of having about 100 employees. Because of the rapid growth it is experiencing, management have thought it wise to establish two accounting departments namely management accounting and financial accounting. The Company has engaged a consultant to design these two accounting systems. The Chief Executive Officer however, is still not for the idea to have two separate departments as he looks at it as a 'cost' and a duplication of duties. The meeting, however, resolved to have the consultant present at the next meeting so that he could answer queries which may be raised.

Required:

a) As a consultant, prepare detailed notes for presentation to the meeting describing the five major elements required for any accounting system to meet its objectives. **(10 Marks)**

b) To distinguish between management accounting and financial accounting for a company like Kambi Ltd. **(10 Marks)**

(Total 20 Marks)

QUESTION SEVEN

a) Explain the meaning of the following terms in regard to the cost and financial accounting systems:

i) Integrated cost accounts **(3 Marks)**

ii) Interlocking cost accounts **(3 Marks)**

iii) Cost ledger control account **(3 Marks)**

iv) Cost ledger contra account **(3 Marks)**

b) The profit shown in the financial accounts of MRM Co Ltd for the year ended 31 October 2014 is Frw 18,592,000. The cost accounts for the same period reflected a profit of Frw 20,496,000. Comparison of the two set of accounts revealed the following:

Stock Valuations	Cost Accountants	Financial Accountants
Raw Materials:	Frw "000"	Frw "000"
Opening stock		7,529
Closing stock	5,483	5,128
Finished goods:		
Opening stock	13,291	12,905
Closing stock	11,430	11,131

Dividends and interest received of Frw 500,000 and Frw 52,000 respectively were reflected in the financial accounts. The company disposed of a production machine costing Frw 5 million for Frw 0.25 million. It had been depreciated to the extent of Frw 3 million.

Required:

Reconciliation of profit based on cost Accountant and profit based on financial Accountant for the period. **(8 Marks)**

(Total 20 Marks)

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