
**CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 2 EXAMINATIONS
F2.1: MANAGEMENT ACCOUNTING
FRIDAY: 04 DECEMBER 2020**

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 **should be** attempted.
3. Marks allocated to each question are shown at the end of the question.
4. Show all your workings where necessary.

QUESTION ONE

(a) Kabatesi Manufacturing Company Limited (KMC Ltd) is a company located in Western Province, Rwanda that produces T-Shirts for Men and Women. It is a normal practice for the company management to produce a budget to be tabled to the Board of Directors by 31st December each year. Bosco Abizera, The Head of Finance and Administration, has sent to the chief accountant, Eric Niyomugabo, the expected expenses for the Financial Year 2021 for budget preparation.

The expenses for budget production of 5,000 units in a factory are provided below:

S/N	Description	Cost per unit /Rwf
1	Direct Material	50
2	Direct Labour	25
3	Variable Overheads	20
4	Fixed Overheads (100,000)	10
5	Variable Expenses-Direct	5
6	Costs allocated to selling (10% Fixed)	13
7	Distribution Expenses (20% fixed)	7
8	Fixed General Expenses (Rwf 50,000)	10
Total		140

Required:

As an accountant working under the supervision of Bosco Abizera, prepare for him a budget for the Production of 8000 units, 6000 units and Calculate the cost per unit at both levels

(15 Marks)

(b) On 30th June 2020, The Chief Executive Officer (CEO) chaired all staff meeting for Manasseh and Sons Company Limited (MSC Ltd). One of the main issues raised by the staff was on how incentives were prepared and shared amongst the staff. It was not the first time this was questioned to the company's management. The CEO and senior team of MSC Ltd are much struggling on setting incentive scheme.

Required:

As a management Accountant at Manasseh and Sons Company Limited, you are requested to advise the CEO on the above issue by providing five (5) key principles of a Good Incentive Scheme to contractual and permanent staff.

(5 Marks)

(Total :20 Marks)

QUESTION TWO

(a) Gasabo Rice Company (GRC) is a company fully owned by Three Brothers: Karake Bob, Issa Manzi and Hassan Sassi. All of them graduated from Production Industry Engineering and never had chance to learn Management Accounting. Company owners want to do business revamping and they want to change from Job Costing to Batch Costing. This will be one of the major points to be discussed during the next board of directors meeting.

Required:

As the Head of Finance and Administration at GRC, you are required to highlight five (5) key differences between Job Costing and Batch Costing to the company's owners during the next board meeting.

(10 Marks)

(b) Batch No 465 required 10 Kgs of materials in stores which cost Rwf 15/Kg, and also a special component had to be bought at a cost of Rwf 1,000. 30 Hours labor were spent on the Batch where the employees were paid at Rwf 90/Hour. In addition, 3 Hours were spent by supervisor who is paid at Rwf150/Hour. Overheads are absorbed at the rate of Rwf40/Labor hour.

Required:

Calculate the total absorption cost of the Batch No 465.

(10 Marks)

(Total :20 Marks)

QUESTION THREE

Kayonza Nile Company Limited (KNC Ltd) was established in 2014 and was set to provide clean water access to over 335,000 individuals, Schools, Businesses and Farmers in Rwanda and Across the Borders in DRC, Burundi and Uganda.

KNC Ltd is a social enterprise committed to eradicating water scarcity by providing appropriate equipment such as water pump, water bottle and etc. KNC Ltd offer an attractive portfolio of services and products targeting to service all water scarce areas and encounter within available budget. KNC Ltd has been making loss over the past six years and want to correct this by resetting an appropriate selling price. The company want to start the process by assessing the breakeven point.

Umwari Carine is the Chief Accountant to the company, she previously determined that the fixed costs of KNC Ltd consists of Tax equivalent to Rwf 15 million, rent for Rwf 45 million and remuneration of Rwf 40 million. The variable costs associated with producing one bottle of water is Rwf 20 per unit. The bottle of water is sold at a premium price of Rwf 120.

Required:

- i) **What does it mean “Break-even Point”?** (2 Marks)
- ii) **Determine the Breakeven point of KNC Ltd.** (3 Marks)
- iii) **Draw the Graph Highlighting the Breakeven Point.** (10 Marks)
- iv) **Provide a detailed Explanation for the Graph of the Breakeven Point.** (5 Marks)

(Total :20 Marks)

QUESTION FOUR

The YOKOHAMA Rubber Company Limited (YRC Ltd) is a tire company manufacturer based in Tokyo, Japan. The company was founded and began its operations on October 13, 1917, in a joint venture between Yokohama cable manufacturing and B.F Goodrich. In 1969 the company expanded to the United States of America as Yokohama Tire Corporation.

YRC Ltd received a request from AKAGERA MOTORS Rwanda to provide a quotation for an order for the supply of 1000 custom made tires required for industrial vehicles. YRC Ltd is facing

high competition from its business rivals and is therefore hoping to secure the order by quoting the lowest price. YRC Ltd plans to quote at 15% above its relevant cost.

Here under is the computation of total costs in regarding the order.

Item	Amount/Rwf	Description
Gum	120,000	The order requires special type of Gum. Only 20% of Gum is currently available in stock. The Gum was purchased two years ago at the cost of Rwf 20,000. If the rubber is not used on this order, it will have a scrap value of Rwf 10,000. Remaining quantity shall have to be procured at the price of Rwf 100,000.
Lubricant	80,000	All the required quantity of lubricant is currently available in stock. The cost of oil that will be used on the order is Rwf 80,000. Currently the market value of the required quantity of lubricant is Rwf 82,000. If lubricant is not used on the order, it could be used in the production of other tires.
Extra ingredients	30,000	All other materials will have to be procured.
Direct Labor	120,000	Rwf 120,000 represents the cost that would be paid to direct labor in respect of the time that they work on the order. If direct labor is not utilized on this order, they remain idle for the entire time. Direct labor is paid idle time equal to 30% of the normal pay in order to retain them.
Casual worker supervisor payroll	70,000	This represents the share of factory supervisor's salary for the number of days in which production for the order will take place.
Depreciation of equipment	20,000	This represents the manufacturing equipment's depreciation for the number of days in which production for the order will take place.
Lease rental of factory plant	150,000	This represents the share of lease rentals of the factory plant for the number of days in which production for the order will take place.
Energy	80,000	The order would require 3,000 units of electricity which is expected to cost Rwf 80,000.
Total	670,000	

Required

- i) **In business and accounting, what is the difference between relevant and irrelevant costs?** (5 Marks)
 - ii) **Calculate the relevant cost for the order and on each cost provide explanations of why it was taken as relevant cost for YRC Ltd.'s quotation Akagera Motors Rwanda** (15 Marks)
- (Total :20 Marks)**

QUESTION FIVE

- a. **What is the Economic order Quantity (EOQ)?** (4Marks)
- b. Sina Gerard Enterprise-Urwibutso is owned and managed by Mr. Sina Gerard. It is oriented towards agro-processing industry sector. The company is located at Nyirangarama in Rulindo District, Northern Province. The enterprise has steady demand of 15,000 units per year for one of its products called Agashya. The enterprise purchases the product from its supplier at a cost of Rwf 100 each. The incremental cost to process an order is Rwf 150 and its incremental annual cost to hold the product in inventory is Rwf 20 per unit.

Required:

- Calculate the Economic order Quantity (EOQ).** (6 marks)
- c. **Why do most companies prefer to use FIFO over LIFO in inventory management?** (10 marks)
- (Total :20 Marks)**

QUESTION SIX

With a heritage of over 30 years changing the Rwandan Landscape, CIMERWA is a Rwanda's only integrated cements producer. The production plant is located in Bugarama, Rusizi District in South West border of Rwanda. This is the only cement company in Rwanda that mines raw materials, Produces the clinker concentrate, packs and sells cement for general and civil construction. Some of CIMERWA products are exported to neighboring countries such as DRC and Burundi.

The following table describes the production cost for the plant on a *new introduced High-Quality Cement* to be used on only for the construction of Railway from Nairobi, Kenya to Bukavu, Congo via Gitarama, Rwanda.

Item description	Standard/Budget	Actual
Material Price	Rwf 8 per kg	Rwf 6 per kg.
Quantity	200 Kgs	150 Kgs
Hours	250	300
Hour Rate	Rwf 8	Rwf 7
Output	100 Kgs	80 Kgs
Fixed Overhead Rate per Hour	Rwf 12	Rwf 11.67
Fixed Overhead Rate per unit	Rwf 30	Rwf 43.75
Fixed Overhead	Rwf 3,000	Rwf 3,500
Sales Price per unit	Rwf 50	Rwf 65

(a) Calculate the following variances:

1. Material cost. (2Marks)
2. Material usage. (2Marks)
3. Labor cost. (2Marks)
4. Labor rate. (2Marks)
5. Variable overhead. (2Marks)
6. Sales. (2Marks)
7. Sales volume. (2Marks)

(b) Indicate six (6) advantages of material control at CIMERWA. (6 Marks)

(Total :20 Marks)

QUESTION SEVEN

- (a) Rwanda Environment Management Authority (REMA) is responsible for developing a Green Economy approach for the country's economic transformation with the framework of the second Phase of the Economic Development and Poverty Reduction Strategy (EDPRS II) running from 2013 through to 2018.

Required:

As a Management Accountant, what are six (6) benefits of having an environmental management systems (EMS)? (12 Marks)

- (b) The traditional role of the management accountant has been to exercise control and for this reason they have been largely independent of the operational managers. More recently management accounting has focused more on business support.

Required:

Provide the main reasons for the change in the management accountant's role. (8 Marks)
(Total :20 Marks)