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**CERTIFIED ACCOUNTING TECHNICIAN
STAGE 3 EXAMINATIONS**

S3.2: MANAGEMENT ACCOUNTING

DATE: THURSDAY, 28 JULY 2022

INSTRUCTIONS:

- 1. Time allowed 3 hours.**
- 2. This examination has three sections: A, B and C.**
- 3. Section A has 10 multiple choice questions equal to 2 marks each.**
- 4. Section B has 2 questions equal to 10 marks each.**
- 5. Section C has 3 questions equal to 20 marks each.**
- 6. All questions are compulsory.**
- 7. The question paper should not be taken out of the examination room.**

SECTION A

QUESTION ONE

The following statements have been made for the reliability of data:

- (i) Data on Governments' websites are free and reliable primary data
- (ii) An organization can never rely on secondary data as they are prone to significant errors
- (iii) All externally obtained data are primary data
- (iv) Qualitative data can only be collected as primary data while Quantitative data can only be collected as secondary data

Which of the above statements are correct?

- A (i) only
- B (i) and (ii) only
- C (iii) and (iv) only
- D None of the above

(2 Marks)

QUESTION TWO

Which of the following statements is true for responsibility centres?

- A Under investment centres, managers are only responsible for investments and cannot be held accountable for controllable costs.
- B Non-controllable costs are not a direct responsibility of managers under investment centres but rather that of managers under cost centres.
- C The cost centre manager should be held accountable for the sudden increase in cost of power independently allocated to different cost centres by the group chief finance officer.
- D The main responsibilities of managers under profit centres are to manage and control only costs and revenues.

(2 Marks)

QUESTION THREE

The following statements relates to cost codes and coding system

- (i) To ensure codes uniqueness, codes should not be uniform such as having the same structure or length.
- (ii) Cost codes can be used in both computerized and non-computerized environments to ease the recording and identification process
- (iii) Codes generated by attributing distinct numerical sequence numbers to items is an example of faceted coding system
- (iv) Good cost codes should be either entirely numeric or entirely alphabetic

Which of the above statements are correct?

- A (i) and (ii) only
- B (ii) and (iii) only
- C (ii) and (iv) only
- D (iii) and (iv) only

(2 Marks)

QUESTION FOUR

Kinamico (K) Ltd has budgeted the following for next year 2023:

- (i) Planned sales Units: 20,000
- (ii) Planned opening inventory of finished units: 5,000
- (iii) Planned closing inventory of finished units: 4,000
- (iv) Planned opening inventory of materials (Kg): 60,000
- (v) Planned closing inventory of materials (Kg): 70,000

Given that K Ltd produces and sells one product which requires 6 kg of material; **which of the following is the budgeted material purchases (in Kg) for the year 2023?**

- A 136,000
- B 116,000
- C 124,000
- D 114,000

(2 Marks)

QUESTION FIVE

Girimari is a casual worker employed by a company under a piecework system of remuneration. A piece work is paid at the rate of FRW 13,000 per standard hour and only 9 minutes is set and allowed as the standard time for a unit of output. Any employee is guaranteed a minimum pay of FRW 2,000 per hour worked. Normal working hours per day are 8 hours.

How much Girimari will be paid for 8 hours and 130 units produced?

- A FRW 120,000
- B FRW 253,500
- C FRW 16,000
- D FRW 104,000

(2 Marks)

QUESTION SIX

Which of the following statements are correct about the Public Sector and Incorrect about the private sector?

- (i) It is usually difficult to define the cost unit of a service or product being offered
- (ii) The entity's ability to independently raise debt finance is subject to strict control of the central Government
- (iii) Only the public sector uses the 3Es approach while assessing the concerned entity's performance over a period
- (iv) Only the public sector is influenced by the legal and political environments.

- A (i) only
- B (i) and (ii) only
- C (i) and (iii) only
- D (iv) and (iii) only

(2 Marks)

QUESTION SEVEN

Komeza Ltd has a standard profit on actual sales of FRW 830,000 for the year 2021. During the same period, the company has also recorded an adverse sales volume variance of FRW 80,000, a favourable sales price variance of FRW 40,000 and an adverse total cost variance of FRW 910,000

Which of the below is a fixed budget profit for the year 2021?

- A FRW 870,000
- B FRW 910,000
- C FRW 790,000
- D FRW 750,000

(2 Marks)

QUESTION EIGHT

The following statements relate to internal controls in an accounting system:

- (i) Transactions are executed in accordance with proper authorization
- (ii) Access to assets is permitted only in accordance with proper authorization
- (iii) Collusion of two or more people to perform a transaction by overriding controls
- (iv) Involuntary human errors and mistakes or poor judgements

Which of the above events that internal controls in an accounting system are unlikely to prevent?

- A (iii) only
- B (i) and (ii) only
- C (iii) and (iv) only
- D (ii) and (iv) only

(2 Marks)

QUESTION NINE

Which of the below statement is incorrect?

- A Budgets' assumptions may need to be re-visited when assessing performance against a flexed budget.
- B A limiting factor arises in the context of decision making in a business. It is a resource that is in short supply such that it restricts the ability of the organisation to provide and sell more of its products or services.
- C Productivity is the measure of how hard the employees are working or how productive they are being in their hours at work.
- D Activity Based Costing (ABC) Method is less complex than traditional absorption costing systems and consequently less expensive to develop and administer.

(2 Marks)

QUESTION 10

The following statements have been made for costing systems:

- (i) If inventory levels are rising, absorption costing will give lower profits.
- (ii) If inventory levels are falling, absorption costing will give a higher profit figure.
- (iii) Where inventory levels are constant, provided that unit costs are constant, absorption costing and marginal costing will give the same level of profit.

Which of the above statements are correct?

- A (i) only
- B (i) and (ii) only
- C (ii) and (iii) only
- D All of the above

(2 Marks)

SECTION B

QUESTION 11

Rwimeza (R) Ltd produces high tech expensive products that are exported to various European and American markets. At full capacity, R Ltd produces 1,200 units per year at a total production cost of FRW 26,000 million. It has recently been estimated that at 45% production capacity, the total production costs are FRW 12,000 million while at 80% production capacity, the total production costs are estimated at 17,000 million.

Required:

- a) **With the use of high-low method, what is the estimated total production costs if R Ltd operates at 60% production capacity?** (5 Marks)
 - b) The management of Rwimeza (R) Ltd is considering the use of either Absorption or Marginal costing systems. Management is unaware of the two techniques and have asked you to:
 - (i) **Explain the difference between Absorption costing and Marginal costing** (3 Marks)
 - (ii) **Provide one advantage of marginal costing system and one disadvantages of absorption costing system** (2 Marks)
- (Total: 10 Marks)**

QUESTION 12

Chancen Limited has been hired as an accounting firm to provide detailed understanding on the budgeting matters. However, client requested to provide in summary explanations on budgeting and critically emphasis be put on the following queries from customer management.

Required:

- a) **List the steps involved in planning & control cycle and at least 5 objectives of a budgetary planning and control system.** (6 Marks)
 - b) Provide short notes on the following:
 - (i) **Incremental budgeting** (1 Mark)
 - (ii) **Zero-based budgeting** (1 Mark)
 - (iii) **Top-down budgeting** (1 Mark)
 - (iv) **Bottom-up budgeting.** (1 Mark)
- (Total: 10 Marks)**

SECTION C

QUESTION 13

During a planning meeting at Gumamurugo (G) Ltd, the meeting attendees were informed that the company has budgeted for the last quarter of 2022 that 152,000 units will be sold at FRW 600 per unit. It is also planned that variable cost per unit will be FRW 260 and total fixed costs for the quarter was estimated at FRW 16,000,000.

The participants were updated on the ongoing acquisition of an accounting system and the IT team warned on the potential huge cost associated with advanced and modern systems. The finance lead stressed the importance of having an effective accounting system which can also be used to detect the rising fraud cases.

Required:

a) As part of the planning process, you are required to compute the following:

- i) **The break-even sales in FRW and break-even units** (6 Marks)
- ii) **The margin of safety in percentage** (2 Marks)
- iii) **The revenue required to generate a profit of FRW 205,000** (2 Marks)

b) **Explain three objectives an accounting system should meet to be labelled effective** (6 Marks)

c) **Explain at least two ways a fraud matrix can help Gumamurugo (G) Ltd** (4 Marks)

(Total: 20 Marks)

QUESTION 14

Kayinamura would like to purchase a machine for her new investment in agricultural processing. She was informed that the machine will cost FRW 40,000,000 which will be paid in the first year of operations. The machine will operate for 4 years with an annual fixed maintenance fee of FRW 500,900 paid at the beginning of each of the four years. The first year's cash inflows are expected to be FRW 9,800,500 with a consistent annual growth rate of 3% for the subsequent years.

Required:

- a) Kayinamura is yet to make a decision on the investment and advise him on whether to invest in or reject. Assume a cost of capital is 9% Kindly noted that discounting factor is 0.917, 0.842, 0.772, and 0.708 (14 Marks)
- b) Provide 3 advantages and 3 disadvantages of the net present value method (6 Marks)

(Total: 20 Marks)

QUESTION 15

The chief accountant of Kirazira Ltd prepared and sent the following quarter 2 (Q2) financial data of the year 2021 to the head of finance for review.

Budgeted results for Quarter 2 (Q2) 2021

Production and sales in units of POP1	73,920	No. of units
Selling price per unit of POP1	1,860	FRW
Quantity of direct raw materials used	6,090	Kgs
Direct materials	5,040,000	FRW
Number of direct labour hours used	4,170	Hours
Direct labour	54,109,440	FRW
Variable production overhead (based on direct labour hours)	5,080,320	FRW
Fixed production overhead (based on direct labour hours)	14,730,240	FRW

Actual results for Quarter 2 (Q2) 2021

Production and sales in units of POP1	92,400	No. of units
Selling price per unit of POP1	1,740	FRW
Quantity of direct raw materials used	7,030	Kgs
Direct materials	6,825,000	FRW
Number of direct labour hours used	4,910	Hours
Direct labour	74,594,520	FRW
Variable production overhead (based on direct labour hours)	5,715,360	FRW
Fixed production overhead (based on direct labour hours)	17,348,310	FRW

Following a review of the above submitted data, the head of finance send review comments to her team and requested the following.

Required:

- a) **Compute standard profit of product POP1** (5 Marks)
- b) **Prepare 3 separate Quarter 2 (Q2) 2021 statements of profit or loss using:**
- (i) **Original budget**
 - (ii) **Flexed budget**
 - (iii) **Actual results** (10 Marks)
- c) **Compute the following variances and indicate whether they are favourable or adverse**
- (i) **Direct material price variance** (1 Mark)
 - (ii) **Direct material usage variance** (1 Mark)
 - (iii) **Direct labour rate variance** (1 Mark)
 - (iv) **Sales price variance** (1 Mark)
 - (v) **Sales volume variance** (1 Mark)
- (Total: 20 Marks)**

End of Question Paper.

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