
CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 2 EXAMINATIONS

L 2.3 : MANAGEMENT ACCOUNTING

TUESDAY: 10 JUNE 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

- a) Management accounting is defined as “The application of the principles of accounting and financial management to create, protect, preserve and increase value for the stakeholders of for-profit and not-for-profit enterprises in the public and private sectors”.

The main focus of management accounting is planning, control and decision making.

Required :

- (i) List any two differences between Management Accounting and Financial Accounting. (2 Marks)

- (ii) Costs can be classified in different ways in cost accounting. Differentiate each of the following.

(6 Marks)

- Variable and semi variable
- Product cost and period cost
- Direct and indirect costs

- b) Minimex trades in bags of maize flour. The annual demand is between 13,000 to 26,000 bags. Demand is predictable and spread evenly throughout the year (assume a 52 weeks year).

Reorder quantity has been determined to be 2,000 bags and lead time is 4 to 6 weeks.

Required :

- (i) Reorder level (3 Marks)

- (ii) Maximum inventory level (3 Marks)

- (iii) Minimum inventory level (3 Marks)

- (iv) Average inventory level. (3 Marks)

(Total 20 Marks)

QUESTION TWO

- a) State any two differences between a “cost center” and “cost unit” (4 Marks)

- b) Differentiate the treatment in cost accounting between “overtime” and “idle time” in a manufacturing business (4 Marks)

- c) Robert, Jane and Patience work in a clothing factory that remunerates them as follows

- The standard production per month per worker is 1,000 pieces of clothes.
- The piece work rate is Frw 3,000 per piece of clothes actual production
- Additional bonus of Frw 1,000 is payable for each percentage of actual production above 80% standard production.

- Each employee is guaranteed Frw 10,000 per month

For the month of May 2014 the actual production for each of them was as follows:

Robert - 910 pieces of cloth, Jane 790 pieces of cloth and Patience 890 pieces of cloth

Required :

Determine the monthly wages for each of the three for the month of May 2014 **(12 Marks)**

(Total 20 Marks)

QUESTION THREE

a) State any two advantages of marginal costing **(4 Marks)**

b) Plastics Rwanda manufactures and sells a single product plastic Pole. The company operates a marginal costing system. Plastics Rwanda provided the following information for the year ended 31 December 2013.

The standard selling price and standard costs for one unit of the product are as follows :

| | Frw per pole |
|---|--------------|
| Selling price | 90,000 |
| Direct plastic material | 20,000 |
| Direct wages cost | 8,000 |
| Variable production overheads | 5,000 |
| Variable selling and distribution overheads | 3,000 |

The budgeted fixed costs for the year were as follows;

Production overheads Frw 800,000,000

Selling & distribution cost Frw 160,000,000

Administration cost Frw 240,000,000

Normal production level is expected to be 320,000 units per annum and fixed costs are evenly distributed over the year.

The budgeted sales and production for the next two quarters are as follows:

| Quarter (3 months) to | 31 March 2013 | 30 June 2013 |
|-----------------------|---------------|--------------|
| Sales | 60,000 | 90,000 |
| Production | 70,000 | 100,000 |

There were no inventories of poles at 01 January 2013.

Required:

Prepare a profit statement for each of the two quarters using marginal costing method **(16 Marks)**

(Total 20 Marks)

QUESTION FOUR

a) Distinguish between apportionment, allocation and absorption of production overheads. **(6 Marks)**

b) Brarwa has three production departments for soft drinks, beverage and bottled water and two service departments of pump room and boiler house. The boiler house depends on the pump room for supply of water and the pump room depends on the boiler house for supply of steam power to drive the pumps. The expense incurred by the production departments and service departments were as follows together with the apportionment basis of the service departments expenses:

| Iron products | Department Cost (Frw) | Boiler house apportionment basis (%) | Pump room apportionment basis (%) |
|----------------------|------------------------------|---|--|
| Soft drinks | 600,000 | 20% | 40% |
| Beverage | 250,000 | 40% | 20% |
| Bottled water | 375,000 | 30% | 20% |
| Boiler house | 175,500 | | 20% |
| Pump room | 225,000 | 10% | |

Required :

Show clearly how the expenses of the boiler house and pump room would be apportioned to the production departments (soft drinks, beverage and bottled water). **(14 Marks)**

(Total 20 Marks)

QUESTION FIVE

a) List TWO advantages of “Zero Based Budgeting”. **(2 Marks)**

b) State the difference between a fixed budget and a flexible budget. **(2 Marks)**

c) Explain why it is important for a business to prepare a cash budget **(2 Marks)**

d) State TWO ways, other than borrowing, of improving the cash flow position of a business. **(2 Marks)**

e) The following information relates to Frulep which is engaged in buying and selling fruits:

(1) Forecast of sales (2014) – June : Frw 2,500,000, July: Frw 2,000,000, August to October: Frw 3,000,000 per month. Half the sales will be for cash. 90% of credit sales will be collected in the following month and the balance will be collected in the subsequent month.

- (2) Fruits are generally bought in cash to avail a cash discount of 5%. The plan for the second quarter (June to August) is to purchase 1,500 boxes per month at list price of Frw 1,000 per box.
- (3) Salaries and wages for the second quarter are budgeted at Frw 50,000 per month and it will be paid on the last day of every month.
- (4) Other expenses per quarter have been estimated as follows :

| | Frw. |
|-------------------------|-------------|
| Depreciation | 750,000 |
| Selling expenses | 300,000 |
| Administration expenses | 450,000 |

All these expenses are to be incurred evenly throughout the quarter.

- (5) Cash balance as at 31 May 2014 was Frw 150,000.

Required :

You are required to prepare, the cash budget for the second quarter (June to August) of 2014, on monthly basis. **(12 Marks)**

(Total: 20 Marks)

QUESTION SIX

- a) Briefly outline FIVE limitations of Cost-Volume-Profit (CVP) Analysis. **(5 Marks)**
- b) Sokogenda provided the following information for its single product Sogisi.

| | Frw |
|---------------------|------------|
| Direct Material | 10,000 |
| Direct Labour | 4,300 |
| Variable Overhead | 2,700 |
| Total Variable Cost | 17,000 |

The selling price of Sogisi is Frw 25,000 per unit and quantity of sales is 100,000 units per annum. Total fixed cost per annum is Frw 20 million.

Required :

- (i) Break-even sales in units. **(4 Marks)**
- (ii) Margin of safety in units. **(4 Marks)**

(iii) If the total variable cost increased by 10% and fixed cost increased by Frw 5 million how many units should be sold in order to obtain the present profit while selling price per unit remains unchanged.

(4 Marks)

(iv) Margin of safety in units at a profit of Frw 270,000

(3 Marks)

(Total 20 Marks)

QUESTION SEVEN

a) List TWO advantages of Standard Costing.

(2 Marks)

b) Briefly explain the following :

(i) Ideal Standards.

(ii) Attainable Standards.

(iii) Current Standards.

(6 Marks)

c) Comoco Company uses a standard costing system and the standard cost per unit was as follows for the month of December 2013:

| | Frw. |
|--|-------|
| Direct Materials | 1,000 |
| Direct labour (1½ hours at Frw.500/- per hour) | 750 |
| Variable Overhead (1½ hours at Frw200/- per labour hour) | 300 |

Actual information relating to the month of December 2013 was as follows:

Production 6,000 Units

Direct labour Frw 4,598,000 (11,000 Hours)

Variable overhead Frw 2,300,000

Fixed overhead - Frw 1,400,000

Required :

(i) Direct Labour Rate.

(3 Marks)

(ii) Direct Labour Efficiency.

(3 Marks)

(iii) Variable Overhead Expenditure.

(3 Marks)

(iv) Variable Overhead Efficiency.

(3 Marks)

(Total: 20 Marks)

End of question paper

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