
CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 2 EXAMINATION

L2.3: MANAGEMENT ACCOUNTING

TUESDAY: 07 JUNE 2016

INSTRUCTIONS:

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

QUESTION ONE

- (a) Explain any two differences between management accounting and financial accounting. **(4 Marks)**
- (b) Explain any four reasons for preparation of budgets in a corporate entity. **(4 Marks)**
- (c) RK Ltd manufactures textiles. The company evaluates its financial performance using variance analysis and it is in the process of reviewing its performance for the period ended 31 May 2016. The budgeted and actual data for the period under review is as below:

	Budget		Actual	
Sales units (batches)	5,000		5,500	
	Frw million	Frw million	Frw million	Frw million
Sales revenue		15,000		17,325
Cost of sales (all variable)				
Labour	2,250		2,365	
Materials	2,000		2,310	
Overheads	1,250	(5,500)	1,100	(5,775)
		9,500		11,550
Administration expenses:				
Fixed	1,000		2,000	
Variable	1,250		1,485	
Selling & distribution expenses:				
Fixed	500		700	
Variable	925	(3,675)	1,100	(5,285)
Net profit		5,825		6,265

Required:

Prepare a flexed budget to be used by the directors of RK Ltd as a basis for performance evaluation.

(12 Marks)

(Total 20 Marks)

QUESTION TWO

- (a) Distinguish between interlocking and integrated accounting systems. **(2 Marks)**
- (b) Discuss the arguments for variable costing in a manufacturing enterprise. **(3 Marks)**
- (c) Tern Ltd manufactures and sells a variety of sweets. One of its products, toffee, is sold at Frw 850 per packet. The production manager has provided the following information relating to the product for the past three months;

Raw materials (per packet)	Frw
Raw materials (per packet)	530
Distribution (per packet)	130
Labour (per packet)	84
Fixed costs (per month)	24,635,000

Required:

Prepare a variable costing statement for Tern Ltd for the three months.

(15 Marks)

QUESTION THREE

- (a) (i) Define the term activity- based costing (ABC). (1 Mark)
- (ii) Explain the steps involved in ABC. (4 Marks)
- (b) Solar Ltd manufactures solar panels which are supplied to three different distributors X, Y, Z. The variable cost of production for each panel is Frw 2,000. A uniform price of Frw 100,500 has been charged for each panel.

Management wants to review the pricing of the panels to each distributor due to the difference in the consumption of overheads.

For the period ended 31 May 2016, the following units were distributed:

Distributor	No. of Panels
X	50,000
Y	50,000
Z	50,000

The overhead costs incurred on distribution for the period ended 31 May 2016 were as follows:

	Frw '000'
Sales commissions	5,000
Setups	8,000
Maintenance	4,000
Ordering	6,000

The cost driver rates for the period were as follows:

Cost driver	Distributor		
	X	Y	Z
Number of salesmen's visits	16	5	4
Number of setups	100	55	45
Number of orders	12	8	5
Number of maintenance hours	300	200	500

Required:

Using activity- based costing, determine the costs incurred by each distributor to serve as a basis for future pricing decisions. (15 Marks)

(Total 20 Marks)

QUESTION FOUR

- (a) Explain the following terms as used in contract costing
- (i) Escalation clause (1 Mark)
- (ii) Sub-contract cost (1 Mark)
- (iii) Cost plus contract (1 Mark)
- (iv) Work in progress (1 Mark)

(b) Mutoni Engineering Ltd is a construction company under the Mutoni Group of Companies. Management has given you the following information for the year ended 31 May 2016. The company has undertaken two projects during the year 2016 on which the following expenses are incurred:

PROJECT	A	B
	Frw '000'	Frw '000'
Materials	2,930,000	2,700,000
Wages	1,288,000	1,592,000
Specialized machinery		921,000
General expenses	980,000	763,000

Notes:

- (i) Factory expenses are 20% of the materials cost whereas administrative expenses are 40% of the factory expenses.
- (ii) Materials worth Frw 689,000,000 purchased for contract (A) were returned to the store.
- (iii) Depreciation is calculated using a straight line method and is charged at a rate of 15% per annum.
- (iv) Contract price for project (A) is Frw 6,580 million and Frw 6,773 million for project (B).
- (v) Project (B) is to be completed in the next financial year.

Required:

Prepare job accounts for projects (A) and (B).

(8 Marks)

(c) M Ltd is a leading shoe making firm located in the central business district of Kigali. An interaction with the general manager revealed that they believe in empowering employees so as to achieve its objectives.

Employees are always rewarded with a bonus for time saved basing on the standard time for execution of their duties.

Mr. Gitoni, a new employee worked for 63 hours to complete a task that had a set standard of 87 hours in a week.

All employees work for Frw 800 per hour and an additional overhead rate of Frw 28 per hour.

Required:

Determine the amount of money to be paid to Mr. Gitoni for the week using:

(i) Halsey premium **(4 Marks)**

(ii) Rowan premium **(4 Marks)**

(Total 20 Marks)

QUESTION FIVE

(a) Distinguish between planning and operating variances. **(2 Marks)**

(b) Explain any three factors that management should consider before investigating variances. **(3 Marks)**

- (b) Explain any three major reasons for which a standard costing system can be used in an organization. **(3 Marks)**
- (d) KLM Ltd deals in the production of textile products that are mainly used by factory labourers in the industrial sector. The production of each unit requires 5 metres of nylon material among other components. The standard unit cost of nylon is Frw 1,500 per meter. The planned time for each unit was 2 hours at a rate of Frw 12,000 per labour hour. During the month of May 2016, 10,000 units were produced using 65,000 meters of nylon each at Frw 1,450. The average time spent on each unit was 2.5 hours at a rate of Frw 15,000 per hour

Required:

Define and determine each of the following variances for the month of May, 2016.

- (i) Material usage **(4 Marks)**
- (ii) Total labour cost **(4 Marks)**
- (iii) Total material cost **(4 Marks)**

(Total 20 Marks)

QUESTION SIX

- (a) Lot Limited produces plastic products using both imported and local raw materials. The company obtains material X from KBL, a local supplier at a rate of Frw 55 per unit.

KBL offers a 15% trade discount on its invoice amount as well as a cash discount of 10% on cash purchases.

For every 10,000 units purchased, a container is needed to deliver the materials at a cost of Frw 64,000.

Transport costs incurred on each material purchase is Frw 760,000 and each time material is purchased, a fixed cost of Frw 430,000 is incurred on storage.

During May 2016, 80,000 units of material X were purchased by Lot Limited.

Required:

Calculate the total cost incurred on the materials purchased. **(5 Marks)**

- (b) Define the following terms as used in inventory management.

- (i) Just-in-time philosophy. **(1 Mark)**
- (ii) Lead time. **(1 Mark)**
- (iii) Safety stock. **(1 Mark)**

- (c) Explain any four advantages of the just-in-time approach **(4 Marks)**

- (d) A company uses 1,800 units per annum at a cost of Frw 45 per unit. The holding cost is Frw 36 and the ordering cost is Frw 16 per order. A quantity discount of 15% of the purchase price is available for orders above 1,500 units.

Required:

Advise management, whether to order for 2,000 units and take advantage of the discount. **(8 Marks)**

(Total 20 Marks)

QUESTION SEVEN

(a) Identify any four assumptions underlying cost-volume-profit analysis. **(4 Marks)**

(b) Fyfe Ltd manufactures jackets and jeans. The total unit costs incurred on production and sales are Frw 60,000 and Frw 45,000 for the jackets and jeans respectively.

Due to competition in the market, the jackets and jeans are sold for Frw 80,000 and Frw 50,000 per unit respectively

The fixed cost incurred by the company on a monthly basis is Frw 860,000.

The company plans to produce 400 jackets and 800 jeans in the following month.

Required:

Calculate for each garment:

(i) Break-even point in units. **(4 Marks)**

(ii) Margin of safety. **(4 Marks)**

(iii) Determine the units to be sold to obtain a profit of Frw 120,000 for Jackets and Frw 30,000 for Jeans. **(4 Marks)**

(c) Define the following terms:

(i) Step fixed costs.

(ii) Incremental costs.

(4 Marks)

(Total 20 Marks)

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