INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA

Driving Sustainable Performance

Associate of IFAC

CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 2 EXAMINATION

L2.3: MANAGEMENT ACCOUNTING

TUESDAY: 06 JUNE 2017

INSTRUCTIONS:

1. **Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
2. This examination has **seven(7)** questions and only **five(5)** questions are to be attempted.
3. Marks allocated to each question are shown at the end of the question.
4. Show all your workings.
5. All iCPAR Examination rules and regulations apply.

Attempt any five questions

QUESTION ONE

(a) Abacus Ltd a textile wholesale outlet located in Ruhengeri sub region deals in the importation and supply of Bitenge. The firm recently adopted a periodic stock taking system so as to ensure effective stock control and minimize stock related costs. The following data relating to the purchase and issue of stock during the month of May, 2017 has been provided by the firm's stores manager:

Date	Particulars	Units (m^2)
1	Opening stock valued at Frw 37,500,000	50,000
8	Purchased materials at Frw 850 per m^2	30,000
12	Issued	55,000
15	Returns inwards	3,000
18	Purchased materials at Frw 870 per m^2	8,000
22	Issued	12,000
27	Purchased materials at Frw 895 per m^2	9,000
30	Issued	18,000

REQUIRED:

Using weighted average method of stock valuation, determine the value of closing inventory.

(14 Marks)

(b) Distinguish between the following terms:

(i) Materials requisition form and materials transfer form. **(3 Marks)**

(ii) Continuous stock taking system and periodic stock taking system. **(3 Marks)**

(Total 20 Marks)

QUESTION TWO

Pearl academy is one of the biggest schools in Burera District with a population of 568 pupils. Each pupil pays Frw 250,000 per term. The school bursar has provided the following information regarding the school's expenditure for the last term ended 20 December, 2016:

Details	Amount (Frw)
Salaries and wages	24,900,000
Feeding	48,656,000
Stationery	12,545,500
Cleaning expense	20,645,000
Utilities	19,234,000
Advertisement	3,700,000
Fuel for the generator	8,600,000

The following information has also been provided regarding the next three terms;

1. The school population is expected to increase to 580 pupils in the first term. Due to inflation, school fees is expected to increase by 10% in the first term and 5% in the third term.
2. Feeding expenses will increase by 5% per term.
3. A new Bursar will be hired at the beginning of the first term and he is expected to earn Frw 78,000 per term. However, all staff salaries are to be increased in the third term by 20%.
4. Stationery expenses and cleaning expenses are expected to reduce by 4% per term.
5. Utilities will increase by 25% in the first term.
6. Other costs are expected to remain constant.

REQUIRED:

(a) Prepare the school's budget for the next three terms. **(12 Marks)**

(b) Explain any **four** benefits of Zero Based Budgeting(ZBB). **(8 Marks)**

(Total 20 Marks)

QUESTION THREE

(a) (i) Distinguish between under and over absorption of overheads. **(2 Marks)**

(ii) Give any **five** causes of under/over absorption of overheads. **(5 Marks)**

(b) Mahoro Ltd (ML) located in the western province of Nyabihu produces and sells plastic products. In order to gain a competitive advantage, the firm has hired a consultant for advice on its expenditure with the main focus on reducing overheads that consume a high proportion of the total costs. The firm has 5 departments of which 2 are service departments. However, the consultant prefers that all service department overheads be apportioned to production departments. The following information has been extracted from the ML's overhead analysis sheet for the month of April 2017;

Production departments	**Frw "000"**
L	300,000
M	150,000
Z	100,000
Service departments	
D	40,000
E	20,000
Total	**610,000**

The service department overhead costs are to be apportioned to the production departments as below:

Departments	**Production**			**Service**	
Service	L	M	Z	D	E
D	30	45	15	-	10
E	30	25	20	25	-

REQUIRED:

Using repeated distribution method, apportion all service department overheads to production departments. **(13 Marks)**

(Total 20 Marks)

QUESTION FOUR

(a) Giving an example of each, distinguish between the following:

(i) Relevant and product costs **(3 Marks)**

(ii) Controllable and non-controllable costs **(3 Marks)**

(b) Byiza Dealers Ltd (BDL) deals in the importation and selling of domestic appliances.

The firm has three outlets in the districts of Muhanga, Kirehe and Kicukiro respectively. BDL is currently incurring high administrative costs in managing the trade outlets. The following is data relating to the performance of the three outlets during the previous quarter:

	Outlets			
	Muhanga	**Kirehe**	**Kicukiro**	**Total**
	Frw '000'	**Frw '000'**	**Frw '000'**	**Frw '000'**
Revenue	35,000	27,000	40,000	102,000
Variable costs:				
Direct labour	(6,000)	(3,000)	(8,000)	(17,000)
Direct materials	(12,000)	(10,000)	(13,000)	(35,000)
Variable overheads	(3,000)	(6,000)	(9,000)	(18,000)
Contribution	14,000	8,000	10,000	32,000
Fixed overheads	(8,000)	(9,500)	(7,000)	(24,500)
Profit/Loss	**6,000**	**(1,500)**	**3,000**	**7,500**

Kirehe outlet has continuously made losses and management is planning to discontinue it so as to concentrate on the two profitable ones. All fixed overheads have been allocated to the branches using an appropriate absorption base.

REQUIRED:

(i) Basing on the information provided, advise management on whether to discontinue the branch. **(8 Marks)**

(ii) Explain any **three** Non-financial factors that management should consider before discontinuing the branch. **(6 Marks)**

(Total 20 Marks)

QUESTIONS FIVE

Gaca Limited, a locally owned firm, located in the suburbs of Butare, produces and sells biscuits of two different flavours to school going children mainly in the southern province. The following information relating to the month of March, 2017 has been provided by the production manager:

Details	**Product**	
	Coconut	Ginger
Sales price (per carton) (Frw)	32,000	30,000
Sales (cartons)	12,300	16,300
Labour hours per carton	5	6
Variable production cost per carton (Frw)	6,540	5,750
Variable operating costs (per cartoon sold) (Frw)	3,500	4,000
Opening inventory (cartons)	9,500	7,200
Closing inventory (cartons)	1,450	1,000

Fixed operating and administrative costs were Frw 72,784,500 and Frw 104,251,000 respectively. Direct labour expenses during the period were Frw 650 per labour hour. Management is planning to prepare a costing statement for the forthcoming period to aid decision making.

REQUIRED:

(a) (i) Define the term 'absorption costing'. **(2 Marks)**

(ii) Explain **four** differences between marginal and absorption costing. **(8 Marks)**

(b) Using variable costing, prepare profit statement for the month ended 30 March, 2017 **(10 Marks)**

(Total 20 Marks)

QUESTION SIX

(a) (i) Explain the batch costing process in a manufacturing organization. **(6 Marks)**

(ii) Mutunzi and Sons Ltd deals in the supply of scholastic materials in Rulindo District. The firm's marketing manager Mr. Habamenshi has approached a manufacturing plant for the supply of 120 batches of **A4** duplicating paper of 60 reams per batch. The manufacturing plant usually makes 50 reams per batch and the cost information per batch has been provided as below:

Direct costs	**Frw "000"**
Direct materials	50.0
Direct labour	25.0
Direct expenses	12.5
Total variable costs	87.5

Total fixed overheads for the manufacturing plant are Frw10 million per month and these will still be incurred regardless of the order from Mutunzi and Sons Ltd.

REQUIRED:

Determine the total costs to be incurred by the manufacturing plant on the order received. **(10 Marks)**

(b) Discus any **four** ethical dilemmas faced by management accountants in the modern organizations. **(4 Marks)**

(Total 20 Marks)

QUESTION SEVEN

(a) (i) Explain the factors to be considered before investigating variances. **(4 Marks)**

(b) Manzi (R) Limited (MRL) is a bakery located in Gicumbi District. MRL deals in the production of Queen Cakes which are produced within a single production facility. MRL uses a standard costing and variance analysis system for purposes of cost control. The following data for the month of May, 2017 has been provided by the firm's accountant.

Details	**Variances "000"**
Direct materials price	
Material A	69,500F
Material B	8,500A
Direct materials usage	
Material A	5560F
Material B	3,400A
Direct labour rate	127,000A
Sales margin price	124,400A
Sales margin volume	109,500F

The budgeted profit for the period is Frw 160,460,000

REQUIRED:

Prepare a reconciliation statement for the budgeted and actual profit for the month of May, 2017. **(7 Marks)**

(b) Shema Enterprises Ltd (SEL), located in Nyanza district is a soft drinks firm producing three products namely Mango sweet Juice (M), orange sweet juice (O) and passion sweet juice (P). The products go through the same process at the initial stages and are later transferred to separate production lines. Information relating to production for the month of April, 2017 has been availed as below:

	Products		
Details	**M**	**O**	**P**
Units produced	30,000	10,000	25,000
Separate costs	Frw '000'	Frw '000'	Frw '000'
Direct materials	150,000	20,000	45,000
Direct labour	10,000	5,000	12,500
Direct expenses	3,500	2,800	6,200

Joint product costs for production and administration were Frw 6 million and Frw 4 million respectively.

REQUIRED:

(i) Using physical units method, apportion all joint costs to the various products. **(5 Marks)**

(ii) Determine the cost per unit for each product. **(4 Marks)**

(Total 20 Marks)

End of question paper

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