CERTIFIED PUBLIC ACCOUNTANT

FOUNDATION LEVEL 2 EXAMINATIONS

F2.1: MANAGEMENT ACCOUNTING

FRIDAY: 09 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) BUTALEX Ltd specializes in production of sweets sold to both local and international markets. The company uses sugar as its main raw material which is purchased and issued to production department in bags of 50 Kg each. The following information relates to the purchase and issue of sugar during the month of April 2017.

Date	Transaction
1 April	Opening stock was 2,000 bags valued at Frw 50,000 per bag.
1 April	The company purchased 1,500 bag at Frw 52,000 per bag.
4 April	1,000 bags were issued to production.
6 April	Purchased 1800 bags at Frw 50,500 per bag
8 April	Issued 800 bags to production
12 April	Issued 500 bags to production
12 April	A purchase order of 4000 bags was sent to the supplier
15 April	Received 2,500 bags at Frw 52,000 per bag from the supplier of which 500 bags were rejected by the receiving departments
20 April	A special order was accepted from a new customer for which 2,200 bags were used in production
30 April	A purchase of 900 bags at Frw 51,500 was made in the morning and later in the day 1,500 bags were issued to production.

REQUIRED:

i) Determine the quantity and value of closing inventory as at 30 April, 2017 using the Average cost method (AVCO). **(10 Marks)**

ii) Give any six reasons why accounting material is necessary for BUTALEX Ltd. **(3 Marks)**

iii) Distinguish between perpetual stock taking and continuous stock taking. **(2 Marks)**

(b) (i) Define Cost accounting **(1Mark)**

(ii) Discuss any **two** ethical responsibilities of a management accountant. **(4 Marks)**

(Total 20 Marks)

QUESTION TWO

Gatanazi Clays Ltd (GCL) produces and designs quality clay products such as Chimney pots (C), Brick masonry ovens (B) and Wine storage tiles (W). Traditionally the company has been charging overhead cost to production using direct labour hours. Recently the accountant proposed that management should use Activity Based Costing (ABC) system to charge overheads on to product cost since overhead costs are caused by different activities. The activity centers and their related costs for the period are as follows:

Activity centers	**Activity drivers**	**Cost Frw '000'**
Material handling	Materials movements	3,400
Scheduling and setups	Number of setups	3,900
Utilities	Machine hours	4,800

The following information also relates to the company for the period:

Particulars	**Products**		
	C	**B**	**W**
Units produced	5,000	250	380
Direct costs (Frw '000')	12,000	30,000	42,000
Direct labour hours	85,000	90,000	120,000
Machine hours	60,000	80,000	100,000
Material movements	200	250	400
Number of setups	260	540	760

REQUIRED

(a) Determine the unit cost of each product using the:

(i) Proposed ABC system **(12 Marks)**

(ii) Traditional costing method **(4 Marks)**

(b) As a management accountant and considering the competitive environment under which GCL operates:

(i) Determine the selling price per unit, at a cost plus 25% markup, under ABC costing technique. **(2 Marks)**

(ii) Explain any **two** challenges of using the traditional costing method. **(2 Marks)**

(Total 20 Marks)

QUESTION THREE

Kibeho Manufactures Ltd (KBL) produces and sells a single product "**Washing Machine"** which goes through three production departments and two service departments. The information below relates to the production of 1000 units for the quarter ending 31March, 2017:

Details	**Production department**			**Service departments**		**Total**
	Machining	**Assembly**	**Finishing**	**Quality Control**	**Maintenance**	
	Frw	**Frw**	**Frw**	**Frw**	**Frw**	**Frw**
Direct Material	15,467,000	4,672,400	2,410,600			22,550,000
Direct Labour	12,034,000	7,470,000	4,160,500	2,170,400	1,574,000	27,408,900
Indirect Labour	637,500	747,400	1,465,000	4,720,000	3,470,000	11,039,900
Overhead costs:						
Rent						2,140,000
Depreciation						915,400
Insurance						314,600
Lighting & power						217,500

Apportionment bases

	Total	**Machining**	**Assembly**	**Finishing**	**Quality control**	**Maintenance**
Floor area (m^2)	120	35	35	30	10	10
Asset NBV(Frw'000')	87,000	34,800	21,750	17,400	8,700	4,350
Power usage (%)	100	45	15	30	5	5

KBL has ascertained sharing of service department cost below:

	Machining	Assembly	Finishing	Quality control	Maintenance
Quality control	25%	30%	40%	-	5%
Maintenance	30%	30%	36%	4%	-

REQUIRED:

(a) Perform primary and secondary overhead analysis using repeated distribution method. **(18 Marks)**

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

(Total 20 Marks)

QUESTION FOUR

(a) (i) Differentiate between a standard cost and standard costing. **(2 Marks)**

(b) (ii) Explain any two (2) advantages of standard costing to an organization. **(2 Marks)**

(c) Nviramuse Manufacturers Ltd (NML) deals in production of Premium Paint for both retail and wholesale. The company has recently adopted standard costing in an attempt to effectively monitor production and other relevant costs. The standard cost card for one tin of Premium Paint is as below:

Details	**Frw**
Direct material 5 litres at Frw 1,000 per litre	5,000
Direct wages 4 hours at Frw 2,000 per hour	8,000
Variable overheads 1 hour at Frw 1,400 per hour	1,400
Total manufacturing cost Frw	14,400
Standard selling price	20,000

Budgeted output for the month of May 2017 was 14,000 tins but actual results for the period were as below:

1. Production and sales units totaled to 12,700 tins at a selling price of Frw.19,500 per tin
2. Labour hours paid for amounted to 58,000 hours of which 10% was idle time. The total cost for the month amounted to Frw 100,800,000
3. Total variable overheads cost amounted to Frw 18,200,000
4. Materials consumed during the production process amounted to 71,400 liters at unit cost of Frw 900 per liter

REQUIRED:

(d) (i) Calculate relevant variances and prepare an operating statement for May 2017. **(8 Marks)**

(ii) Prepare a reconciliation of actual and budgeted operating statement. **(4 Marks)**

(e) Explain the factors that should be considered before investigating variances. **(4 Marks)**

(Total 20 Marks)

QUESTION FIVE

(a) Distinguish between ***interlocking*** **and** ***integrated*** systems of Cost Control Accounts. **(2Marks)**

(b) Gatsibo Steel Mills Ltd (GSML) specializes in production of Iron bars for quality construction. Provided below are the balances extracted from the Cost Account ledger of GSML as at 1 April, 2017.

Details	**Frw "000"**
Finished goods stock account	24,000
Store ledger control account	46,000
Cost ledger control account	200,400
Work- in- Progress account	134,500

The following additional data also relates to the month of April 2017

Details	**Frw "000"**
Goods completed	416,700
Manufacturing expenses	74,000
Goods sold at cost	398, 700
Work in progress rejected	4,100
Selling and distribution expenses recovered	42,000
Manufacturing expenses recovered	62,000
Purchase of raw materials	213,400
Direct factory wages	102,000
Selling and distribution expenses	47,000
Sales	498,100

REQUIRED:

(i) Prepare the necessary ledger control accounts to record the above transactions. **(14 Marks)**

(ii) Prepare an extract of the Trial Balance as at 30 April, 2017. **(2Marks)**

(a) Explain any ***two*** advantages of an integrated cost control system **(2 Marks)**

(Total 20 Marks)

QUESTION SIX

(a) Gikongoro Supplies Limited (GSL) deals in production of butter that goes through a single process. The company uses process costing to account for costs attributed to its product. During the month of May, the following data was available regarding production of butter.

Units introduced to the process were 200,000 litres of which 80% were fully completed during the period. The stages of completion for work in progress were as follows:

	Material	Labour	Production overheads
Percentage (%)	80	70	30

Total costs incurred during the production period were:

Costs	Frw '000'
Material	6,460
Labour	2,140
Overheads	720

REQUIRED:

Prepare statements of:

(i) Equivalent units **(3 Marks)**

(ii) Cost per unit **(2 Marks)**

(iii) Closing stock and finished goods **(2 Marks)**

(a) Prepare process account for GSL for May 2017 . **(3 Marks)**

(b) Turatsinze Soft Drinks Limited (TSDL) produces and sells ordinary Orange, Mango and Apple juice packed in bottles of 500ml each. Each bottle of ordinary Mango, Orange and Apple Juice sells at Frw 2,500, Frw 2,100 and Frw 3,400 respectively. The company's budgeted production and sales budget for July 2017 is as follows:

	Mango	Orange	Apple
Production/ Sales (bottles)	40,000	54,000	30,500

To boost sales, TSDL is considering further processing its Juice as a way of attracting more customers. The company has established that each bottle of Mango, Orange and Apple Juice can be further processed at a unit cost of Frw 1,000, Frw 700 and Frw 720 respectively. After further processing, TSDL has established that it can sell each bottle of super Mango, Orange and Apple juice at Frw 3,100, Frw 3,400 and Frw 4,700 respectively:

REQUIRED:

(i) Using relevant calculations, advise TSDL on the cost implications on further processing. **(6 Marks)**

(ii) Explain any four factors that are considered under "Make or Buy" decision decision. **(4 Marks)**

(Total 20 Marks)

QUESTION SEVEN

(a) Briefly explain the Marginal Costing Technique clearly bringing out its assumptions. **(3 Marks)**

(b) Karame Ltd (KL)produces and sells a single product called Beauty Lotion. The unit cost of production for the firm is provided below:

Costs	**Frw**
Direct Material	2,400
Direct Labour	3,100
Variable overheads	600
Fixed overheads	1,200
Total Production cost	**7,300**

The fixed overheads calculation is based on a budgeted activity level of 10,000 units and budgeted fixed manufacturing overheads of Frw.12 million for each quarter. The budgeted fixed selling and administration overheads are Frw 15 million per quarter. The selling price for each unit of lotion is Frw 12,000. Production and sales for each quarter are given below:

	Q1	**Q2**	**Q3**	**Q4**
Production (units)	10,000	12,000	8,000	9,000
Sales (units)	7,000	9,400	7,800	8,300

There was no opening stock in Quarter 1

REQUIRED:

(i) Prepare marginal costing profit statements for the 4 Quarters. **(10 Marks)**

(ii) Determine the selling price per unit of Beauty Lotion if KL uses Marginal Cost plus 20% pricing strategy? **(2 Marks)**

(c) Explain any **Five (5)** arguments in favor of absorption costing. **(5 Marks)**

(Total 20 Marks)

End of question paper

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