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## **CERTIFIED ACCOUNTING TECHNICIAN**

### **STAGE 3 EXAMINATIONS**

#### **S3.2: MANAGEMENT ACCOUNTING**

**DATE: THURSDAY, 31 MARCH 2022**

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#### **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**

You are a junior management accountant of Ituze Ltd manufacturing company, and you are responsible for classification of the costs into relevant class for proper cost analysis. **Which among the following costs can be classified as production costs:**

- A. Depreciation of factory plant and rent of finished goods warehouse
- B. Fees of advertising agency and security guard of raw materials in warehouses
- C. Cost of oils used in machinery and salary of a supervisor working in factory
- D. All the above

**(2 Marks)**

### **QUESTION TWO**

Birambo tea factory is a small company and has got a new Chief Financial Officer (CFO) who wants to improve the performance of the company by maximizing sales and reducing costs. You are hired as a CAT student to recommend whether some services (Payroll preparation, VAT returns and financial statements preparation) can be performed in house or/and outsourced. **Advice Birambo tea factory on best action from the following:**

- A. Conduct them in house
- B. Outsource the services
- C. Neither A nor B
- D. Both A and B

**(2 Marks)**

### **QUESTION THREE**

Isano Ltd is a beverage company. It has been a decade since it started using the traditional method in its performance measurement including financial ratios. Recently, it has been accused of concentrating on the financial perspectives only. You are Management Accountant and you are suggesting the use of a Balance Scorecard as a new performance model. **Identify other remaining areas of improvement according to the Balance Scorecard:**

- A. Internal controls, innovation and learning perspectives and finally customer perspectives
- B. Innovation and Learning perspectives, customer perspectives and production perspectives
- C. Customer perspectives and Production perspectives and Internal controls
- D. All the above

**(2 Marks)**

#### QUESTION FOUR

Performance measurement in public institutions has been challenging before the invention of 3Es (Economy, Effectiveness and Efficiency). Which among the following corresponds with the following statement “Attaining desired results at minimum costs”?

- A Effectiveness
- B Economy
- C Efficiency
- D Neither A, B and C

(2 Marks)

#### QUESTION FIVE

You are a budget analyst at Izihirwe Ltd and you are forecasting materials cost budget for the next quarter. After incorporating all internal factors, you receive information from the Ministry of Finance that inflation mainly on raw materials is going to rise. How would inflation affect the materials cost budget?

- A Affect negatively
- B Affect positively
- C No impacts
- D None of the above

(2 Marks)

#### QUESTION SIX

The Budget Manager of Kanombe Innovation Ltd is doing a variance analysis for decision making and has suggested some changes. The initial analysis shows that, the variable production overhead expenditure variance is FRW 50A, production overhead efficiency variance is FRW 40F. What would the variable production overhead total variances be equal to:

- A FRW 50A
- B FRW 90F
- C FRW 10F
- D None of the above

(2 Marks)

#### QUESTION SEVEN

Performance measurement in public institutions differ from that of private institutions. Which among the following challenges may be faced by a public institution compared to the private institutions: (i) lack of profit measures; (ii) multiple objectives with different expectations; (iii) nature of the service provided:

- A One of the three challenges
- B All the three challenges
- C Two of three challenges
- D None of the three challenges

(2 Marks)

### QUESTION EIGHT

You are the management accountant of Iteka Ltd and you found that, a company has over-absorbed fixed overheads for the period 2021 by FRW 40,000. The fixed production overhead absorption rate was FRW 50 per unit and is based on normal level of activity of 10,000 units and actual production was 8000 units.

**What was the actual fixed production overheads incurred for the period 2021?**

- A FRW 360,000
- B FRW 400,000
- C FRW 440,000
- D FRW 500,000

**(2 Marks)**

### QUESTION NINE

The management accountant of Imanzi Ltd, has asked you for **possible reasons, among the following, that best explains a favorable, direct labor rate variance.**

- A Decreases in cost per unit and decreases in hours worked
- B Increases in unit produced and decreases in hours worked
- C None of the above
- D All the above

**(2 Marks)**

### QUESTION 10

Keza Fashion Enterprise wants to forecast a market expansion in the following five years. As a management accountant, **which is/are the primary source of data:**

- A The historical market share data corrected from fashion regulator industry
- B The data corrected from research questionnaire (Survey) circulated to the clients and employees
- C The historical projection from senior data management strategists
- D All the above

**(2 Marks)**

## SECTION B

### QUESTION 11

Ukuri Company Ltd, is an iron sheet manufacturing company, it had a poor performance in the last years attributable to poor cost management. The Board of Directors have hired a CAT graduate to recommend a course of action. One of the recommendations are to establish standard costing system to control costs and ask the management accountant to share the cost sheet to calculate variances for further recommendations, the following is the cost sheet:

Detail	Quantity	Unit Price	Total Cost
Material	100 Kg	400/kg	40,000
Fixed overhead (labour)	30 minutes	1200/Hour	600

The budgeted fixed overhead for this quarter is FRW 120,000,000 and the budgeted monthly output is 200,000 iron sheets. 220,000 iron sheets were produced, 120,000 hours were used and paid at FRW 1400 per hour. Actual fixed overhead was FRW 100,000,000 for the quarter. 22,000,000kg of materials were purchased for FRW 9,000,000,000, for which 21,400,000 were issued in production of iron sheets.

#### Required

(a) Compute Variance and recommend a course of action.

(i) Material Price variance (2 Marks)

(ii) Material usage variance (2 Marks)

(iii) Fixed overhead expenditure variance (2 Marks)

(iv) Fixed overhead efficiency variances (2 Marks)

(b) Suggests two benefits of launching standard costing in Ukuri Company Ltd. (2 Marks)

**(Total: 10 Marks)**

### QUESTION 12

Toni Ltd manufactures fertilizers. After attending a seminar organized by ICPAR in partnership with World Bank about efficient budgeting in Small and Medium Enterprises (SMEs), Toni who is the Managing Director and sole owner of the business took a decision to start management account units in the company to help plan for the next quarter. You are assigned to prepare a function budget of Toni Ltd.

Toni Ltd, manufactures fertilizers using skilled labour. Its sales and finished goods inventory for the following quarter are as follows:

	<b>Units</b>
Sales units	84,000
Opening Inventory, finished goods	650
Closing Inventory, finished goods	150

The goods are reviewed when the work is finished, according to the historical estimate, its budgeted that 5% of finished goods will be scrapped. According to the new information got from the machinery engineer, the existing scrapped value will be increased by 15% because the machines have a technical problem.

Its standard labor hour is 5 hours per unit and the budgeted productivity ratio is only 80%, the company has 150 employees who work on average 4000 hours per each in every quarter.

**Required:**

- (a) Prepare a production budget. (5 Marks)
- (b) Prepare a direct labor budget. (2 Marks)
- (c) Identify a limiting factor that can hinder Toni Ltd to produce the desired output and advocate two possible solutions for the limiting factor identified. (3 Marks)

**(Total:10 Marks)**

## SECTION C

### QUESTION 13

Rwema Enterprise is a beverage company established in Rwanda in 1999. Since its incorporation, it has grown steadily and now it possesses around twenty percent (20%) of the market share of the beverage industry. You have been hired as a management accountant and CAT Finalist to measure performance and benchmark with industry as a whole. The following is the Summary of financial information:

#### STATEMENT OF PROFIT AND LOSS

	<b>2020</b>	<b>2019</b>
	<b><u>FRW "000"</u></b>	<b><u>FRW "000"</u></b>
Revenue	120,000	100,500
cost of sales	47,000	44,000
salary and wages	27,000	22,000
other costs	<u>9,500</u>	<u>8,040</u>
Profit before interest and tax	<u>36,500</u>	<u>26,460</u>
interest	6,500	4,800
Profit before tax	<u>30,000</u>	<u>21,660</u>
Tax (30%)	9,000	6,498
Profit after interest and tax	<u>21,000</u>	<u>15,162</u>
Dividend payable	7,000	5,000

#### STATEMENT OF FINANCIAL POSITION

	<b><u>FRW "000"</u></b>	<b><u>FRW "000"</u></b>
<b>Non-current asset</b>		
Property Plant and Equipment (PPE)	34,000	31,000
Intangible asset	5,000	4,500
Total non-current asset	<u>39,000</u>	<u>35,500</u>
<b>Current asset</b>		
Inventory	23,000	19,000
Cash	10,000	11,000
Trade Receivables	45,000	39,000
Total current asset	<u>78,000</u>	<u>69,000</u>
<b>Total asset</b>	<u>117,000</u>	<u>104,500</u>
<b>Equity and liability</b>		
<b>Equity</b>		
Ordinary share capital	34,000	34,000
Retained earning	45,000	31,000
Total equity	<u>79,000</u>	<u>65,000</u>
<b>Liability</b>		
<b>Non-Current liability</b>	21,000	21,000
<b>current liability</b>		
Trade payables	17,000	18,500
Total Current Liability	<u>17,000</u>	<u>18,500</u>
<b>Total equity and liability</b>	<u>117,000</u>	<u>104,500</u>

The following are industry benchmarking ratios

### Ratios

### Industry comparison

	<u>2020</u>
Gross Profit Margin	35%
Net Profit Margin	17%
current ratio	3X
Quick ratio	2.1X
Inventory days	150 Days
Receivable's days	131 Days
Payable days	140 Days
Asset turnover	0.98 X
Return on Equity	27%
Interest Coverage Ratio	6.5X

### Required

**(a) Calculate all the ten ratios as above and compare each ratio with industry data and suggest whether a company is doing well or bad compared to the industry average and suggest improvements if any. (15 Marks)**

**(b) Based on the answer (a), what is the general conclusion on the performance of RWEMA Enterprise (2 Marks)**

**(c) State three (3) challenges of using ratios in performance evaluation (3 Marks)**

**(Total:20 Marks)**

### QUESTION 14

Rango Ltd belongs in the drag manufacturing sector and is currently carrying out a restructuring exercise. The external auditor has identified a lot of inefficiencies in internal controls, mainly relating to the preparation and execution of the budget. The auditor was equally surprised that the company uses net cash and net profit interchangeably along with holding a lot of cash (Cash drag) alleging that they don't know how to estimate cash operating cycle and thus the failure of differentiating between a master Budget and a capital Budget.

You are hired as a management consultant to help in establishing and helping the Finance staff to grasp some concepts and its use in real world practice.

### Required

**(a) Using relevant examples, differentiate between capital budget and a master budget in the context Rango Ltd (4 Marks)**

**(b) Please draft a Report showing four (4) reasons why net profit and net cash flow of Rango Ltd may differ (Applicable example for each reason). (10 Marks)**

**(c) Based on the cash conversion cycle, recommends two (2) ways to improve the cash flow cycle of Rango Ltd. (2 Marks)**

**(d) Mention two negative impacts of holding a lot of cash (cash drag) at Rango Ltd (4 Marks)**

**(Total: 20 Marks)**



## QUESTION 15

Burera Ltd is a tea factory that produces teabags and sells them to Rwanda and across the region. It plans to use standard costing in preparation of the budget for next month. It has been using fixed budget from its establishment. The production manager is claiming to the chief management accountant that he is being judged on the items that are beyond his control. The customer survey report also shows that, there are unaddressed customers complaints. Employees are also complaining that, there is no on job training and IT equipment are so old.

The operations manager says that the principles of “**Controllability**” must be followed in variance analysis because some variances are due to planning errors and not operational errors. As a new management accountant hired by Burera Ltd, you are requested to help to convince the chief management accountant that, what the operations manager is saying is valid in regard to variance analysis.

### Required

- Define controllability principle in variance analysis. (2 Marks)
- With reference to the case study, explain the difference between operational variances and planning variances and who is responsible for the variance between operations manager and the planning manager. (4 Marks)
- The following is the budgeted fixed costs for next month for Burera Ltd, the company uses marginal costing with no opening and closing inventory. Prepare a flexed budget for 120,000 teabags. (6 Marks)

### Fixed Budget

Sales and production Unit	110,000
FRW"000"	FRW"000"
Sales	16,500
Variable cost	
Direct material	4,000
Direct Lobar	2,500
Variable overhead	1,500
Contribution	<u>8,500</u>
Fixed cost	450
Profit/Loss	<u>8,050</u>

- Using balanced scorecard model, suggest improvements needed at Burera Ltd. (8Marks)
- (Total:20 Marks)

**End of question paper**

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