CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATIONS

S3.2: MANAGEMENT ACCOUNTING

DATE: THURSDAY, 02 DECEMBER 2021

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

A chief accountant has calculated a FRW10,000 adverse direct material variance by subtracting its flexed budget direct material cost from its actual direct material cost for the period. **What caused the variance?**

i) An increase in direct material prices,
ii) An increase in raw material usage per unit,
iii) Units produced being greater than budgeted,
iv) Units sold being greater than budgeted.

A ii) and iii) only
B iii) and iv) only
C i) and ii) only
D i) and iv) only **(2 Marks)**

QUESTION TWO

XYZ plant operates a standard absorption costing system. Last month 25,000 production hours were budgeted and the budgeted fixed production cost was FRW 125,000. Last month the actual hours worked were 24,000 and standard hours for actual production were 27,000. **What was the fixed production overhead capacity variance for last month?**

A FRW 5,000 Adverse
B FRW 5,000 Favorable
C FRW 1,000 Adverse
D FRW 1,000 Favorable **(2 Marks)**

QUESTION THREE

Which of the following costs would be allocated to the production budget?

(i) Raw materials cost
(ii) Wages of factory workers
(iii) Salary of marketing director
(iv) Market research survey

A (i) and (ii) only
B (i), (ii) and (iii) only
C (i), (ii) and (iv) only
D (i), (ii), (iii) and (iv) **(2 Marks)**

QUESTION FOUR

Kayonza Modern Village Company uses an overhead absorption rate of FRW 350 per machine hour, based on 32,000 budgeted machine hours for the period. During the same period the actual total overhead expenditure amounted to FRW 10,887,500 and 30,000 machine hours were recorded on actual production. **By how much was the total overhead under or over absorbed for the period?**

A Over absorbed by FRW 387,500
B Under absorbed by FRW 387,500
C Under absorbed by FRW 312,500
D Over absorbed by FRW 312,500 **(2 Marks)**

QUESTION FIVE

What does a favorable sales price variance mean?

A A favorable sales price variance means a company received a higher-than-standard selling price on its goods, often due to fewer competitors, aggressive sales and marketing campaigns, or improved product differentiation.
B A favorable sales price variance means a company received a higher-than-standard selling price on its goods, often due to more competitors and aggressive purchase and marketing campaigns.
C Use only cheaper cost of rare materials
D A company having a qualified Management Accountant **(2 Marks)**

QUESTION SIX

Kigali Cosmetics (KC) Ltd product costs FRW 50 to make and the selling price is FRW 75. **What is the markup percentage?**

A 5%
B 15%
C 10%
D 50% **(2 Marks)**

QUESTION SEVEN

Contribution margin helps to separate out the fixed cost and profit components coming from product sales and can be used to determine the selling price range of a product, the profit levels that can be expected from the sales, and structure sales commissions paid to sales team members, distributors or commission agents.

The Formula for Contribution Margin is:

A Sales minus all totally variable expenses, divided by total cost
B Sales minus all totally variable expenses, divided by contribution
C Sales minus all totally variable expenses, divided by sales
D Sales minus all totally variable and fixed expenses, divided by sales **(2 Marks)**

QUESTION EIGHT

Which of the following are not items of the statements of financial position?

i) Depreciation
ii) Revenues
iii) Expenses
iv) Fixed assets
v) Payables

A All of the above
B i), ii) and iii.
C i, iv, and v.
D None of the above. **(2 Marks)**

QUESTION NINE

Which one of the following is NOT a way of maximizing return over a product life cycle?

A Design costs out of the product

B Minimize the time to market

C Maximize the breakeven time

D Maximize the length of the life span **(2 Marks)**

QUESTION 10

The following statements have been made about budgeting:

i) An incremental budget is a budget that remains unchanged throughout the budget period, regardless of any change in the actual level of activity.

ii) Zero based budgeting is used to compare the incremental cost and related benefits of activities.

Which of the above statements is/are true?

A i) only

B ii) only

C Neither i) nor ii)

D Both i) and ii **(2 Marks)**

SECTION B

QUESTION 11

Total Telecommunication Database (TTD) is telecommunication company which started its operations in 2010 and is offering different services including internet, voice and SMS services. The portfolio has exponentially grown to include data, wireless internet, Mobile Money services, Enterprise solutions and other Value-Added Services has the largest market and value share in the increasingly competitive telecommunications industry across worldwide. It has close to 20 million subscribers and network coverage of 20% East- North of Asia, with a footprint that is covered by 5G, 4G, and EDGE networks.

The company has been struggling over many years on its inventory management of telephone, SIM cards, Airtime and other highly valued infrastructure equipment.

The Chief Executive Officer (CEO) of Total Telecommunication Database approached Kigali Auditing Firm (KAF) for advise on challenges facing inventory management. TTD is currently using LIFO as inventory management system since its inception. Since 19th Centeray FIFO has been noted to be the best comparing to LIFO in many big companies.

The Audit partner has approached you as a senior inventory auditor in KAF to work on this new Engagement.

Required:

a) **Provide a recommendation to the CEO of TTD why he has to shift from LIFO to FIFO.**

(5 Marks)

b) **Describe the Key Inventory Management Process that should be followed at TTD.**

(5 Marks)

(Total:10 Marks)

QUESTION 12

Granite Company Limited (GCL) is a company which specializes in Granite. GCL does a coarse-grained igneous rock composed mostly of quartz, alkali, feldspar, and plagioclase.

GCL have used granite for hundreds of years. GCL used Granite as a construction material, a dimension stone, an architectural stone, a decorative stone, and it has also been used to manufacture a wide variety of products.

On 20th December, 2020 The Chief Finance Officer (CFO) of GCL has presented to the board of director the company’s budget for the financial year 2021. It is a normal practice at GCL to approve the budget before the start of the new financial year. The board of directors has rejected his budget on the ground that the budget was too unrealistic.

The CFO wishes to revise his budget by using a flexible budget which was prepared previously using fixed budget. The CFO called a meeting with accountant and request to search information on budget preparation.

Required:

a) **Explain to the Chief Finance Officer atleast THREE advantages and TWO disadvantages of Flexible budgeting.** (5Marks)

b) **Provide the meaning of Budget Variance and discuss three causes of Budget Variances.**

(5 Marks)

(Total:10 Marks)

SECTION C

QUESTION 13

Rwanda is a country located in Africa and is one of the East African Countries. The country has over 12 million of population and 60% are young, below 30 years of age. The country has developed a strategic plan of 2050 of which all young people will have a secondary level of education.

Gollira Business Company (GBC) took this advantage by establishing a plant which will be manufacturing Pens (Blue, Red and Black).
Gollira Business Company is selling its pen at price of Frw 50 and its variable costs are approximately Frw 30. It can, therefore, say with some degree of certainty that the contribution per 1 pen is Frw 20. GBC also have fixed costs of Frw 200,000 per annum.
GBC wishes to analyse when and how it will be producing without a loss and the quantity it can sell to achieve its desire profit.

Required:

a) **Discuss the Objectives of Cost-Volume-Profit Analysis** (5 Marks)
b) **After Calculating the break-even point, draw the breakeven chart and with note, indicate the area with loss and profit.** (5 Marks)
c) **Discuss the Assumptions Underlying the Cost-Volume-Profit Analysis.** (5 Marks)
d) **Gollira Business Company wishes to achieve a target profit of Frw 300,000. Calculate the sales volume necessary in order to achieve this profit.** (4 Marks)

(Total:20 Marks)

QUESTION 14

A) FANFAN Holding company (FHC) manufactures and sells roof tiles. Below is a summary of the financial statements for the business for the year ended 2020:

Description	**FRW (Million)**
Sales	1,560
Cost of sales	950
Expenses	407
Interest	7
Share capital and reserves	1,600
Long term loan	100
Non-current assets	1,300
Receivables	198
Inventory	140
Payables	162
Bank balance	224

Required:

Compute and interpret the following ratio:

(i)	**Gross profit margin**	(2 Marks)
(ii)	**Return on capital employed**	(2 Marks)
(iii)	**Asset turnover**	(2 Marks)
(iv)	**Current ratio**	(2Marks)
(v)	**Quick ratio**	(2 Marks)
(vi)	**Inventory holding period in days**	(2 Marks)
(vii)	**Payable's payment period in days**	(2 Marks)
(viii)	**Receivables period in days**	(2 Marks)

B) **As a Chief Accountant, provide 4 suggestions to the CEO of FANFAN Holding company on how he can improve his company's financial performance** (4 Marks)

(Total:20 Marks)

QUESTION 15

You are employed as a financial analyst at Manzi Ltd, a computer retailer. Manzi has recently taken over Little Ltd, a small company making personal computers and servers. Little appears to make all of its profits from servers. Manzi's finance director tells you that Little's fixed overheads are currently charged to production using standard labour hours and gives you their standard cost of making PCs and servers. These are shown below.

Little Ltd: Standard cost per computer

Model	**Server**	**PC**
Annual budgeted volume	5	5,000
Unit standard cost	**FRW'000**	**FRW '000**
Material and labour	50,000	**500**
Fixed overhead	4,000	40
Standard cost per unit	54,000	540

The finance director asks for your help and suggests you reclassify the fixed overheads between the two models using activity-based costing. You are given the following information.

Budgeted total annual fixed overheads	**FRW '000**
Set-up costs	10,000
Rent and power (production area)	120,000
Rent (stores area)	50,000
Salaries of store issue staff	40,000
Total	220,000

Every time Little makes a server, it has to stop making PCs and rearrange the factory layout. The cost of this is shown as set-up costs. If the factory did not make any servers these costs would be eliminated

Cost drivers	**Server**	**PC**	**Total**
Number of set-ups	5	0	5
Number of weeks of production	10	40	50
Floor area of stores (square metres)	400	400	800
Number of issues of inventory	2000	8000	10000

Required:

i) Show how to reallocate Little's budgeted total fixed annual overheads between server and PC production on an Activity Based Costing basis (12 Marks)

ii) Discuss at least Three pros and Two cons of Traditional Costing . (5 Marks)

iii) Explain what meant by the following terms:

a. A responsibility centre (1 Mark)

b. A cost centre (1 Mark)

c. A profit centre (1 Mark)

(Total:20 Marks)

End of question paper