
CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 2 EXAMINATIONS

L2.3: MANAGEMENT ACCOUNTING

MONDAY: 10 JUNE 2013

INSTRUCTIONS:

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

QUESTION ONE

- a) Define the term 'marginal costing'. (4marks)
- b) Gisozi Limited produces three products for sale. The operating statement shown below indicates the profit or loss of each product.

	Product			
	A	B	C	Total
	RWF'000'	RWF'000'	RWF'000'	RWF'000'
Sales	6,000	12,000	6,000	24,000
Total costs	<u>8,000</u>	<u>8,000</u>	<u>4,000</u>	<u>20,000</u>
Profit/(Loss)	<u>(2,000)</u>	<u>4,000</u>	<u>2,000</u>	<u>4,000</u>

The total cost comprises 50% variable and 50% fixed for each product.

The executive considers that as Product A shows a loss, it should be discontinued.

Required

- i. What factors should be considered in deciding whether or not to discontinue a loss making product. (3 marks)
- ii. Using appropriate computations show whether Product A should be discontinued or retained. (3 marks)
- c) Gapochu Ltd manufactures mobile telephones. The current operating level is 400,000 phones but full capacity is 550,000. The phones normally sell for RWF 1,500 per phone. Manufacturing cost data of 400,000 phones is as shown below:

Manufacturing costs	Rwf'000'	Rwf'000'
Variable costs	300,000	
Fixed costs	<u>187,500</u>	487,500
Selling and administration costs		
Variable (freight and commissions) costs	30,000	
Fixed costs	<u>60,000</u>	<u>90,000</u>
		577,500

A vendor offers to buy 100,000 phones for export at RWF 1,125 per phone. The buyer will pay for freight and no commissions will be paid. The acceptance of this offer will not affect the present sales. The managing director is reluctant to accept that offer because he believes that the offer price of RWF 1,125 is well below the manufacturing cost per unit.

Required

- i) Should the offer be acceptable? (4 marks)
- ii) What factors should be considered before accepting the order? (4 marks)
- (Total: 20 marks)

QUESTION TWO

- a) Explain the various steps used in the budget making process (8 marks)
- b) High Level Ltd manufactures products X, Y and Z. The following information has been assembled for the preparation of the company's budgets for the month of July 2014.

Budgeted sales:	<u>PRODUCT</u>		
	X	Y	Z
Sales quantity (Units)	3,000	2,250	1,875
Sales price per unit (Rwf)	150	180	300

Standard material cost:	<u>MATERIAL</u>		
	M1	M2	M3
	6.00	7.50	5.00

Standard material requirement:	M1	M2	M3
	Kg	Kg	Kg
Product X	6.00	3.00	2.00
Product Y	5.00	5.00	3.00
Product Z	3.00	2.00	3.00

The expected opening and closing finished goods stock position for the month is as follows:-

	<u>PRODUCT</u>		
	X	Y	Z
	Units	Units	Units
1 July	750	1,500	2,250
31 July	1,200	1,125	1,500

The opening and closing raw material position is also expected to be as follows:-

	<u>MATERIAL</u>		
	Kg	Kg	Kg
1 July	31,500	30,000	18,750
31 July	36,000	34,500	33,000

Required

- a) Sales budget in value (Rwf) (2 Marks)
- b) Production budget in units. (3 marks)
- c) Materials quantity usage budget (Kg). (2 marks)
- d) Material cost budget (Rwf) (2 marks)
- e) Materials purchases budget in units and value (Rwf) (3 marks)

(Total 20 Marks)

QUESTION THREE

Kigali Ltd is a retailer who sells ceramic pots. During the months of July to September 2012, there were price fluctuations. Due to the above problem, the company had to adjust its selling prices. The following transactions took place during the period.

3 July	Opening stock was 5,000 pots valued at Rwf 825, 000.
10 July	Orders placed with the company increased, so extra pots had to be obtained from Dodoma. Therefore, 22,000 pots were purchased at a cost of Rwf 140 each, but in addition, there was a freight and insurance charge of Rwf 5 per tile.
31 July	During the month, 20,000 pots were sold at a price of RWF 220 each.
4 August	A new batch of 14,000 pots was purchased at a cost of Rwf 175 per tile.
30 August	The sales for the month of August were 14,000 pots at a selling price of Rwf 230 each.
1 September	A further 24,000 pots were purchased at a cost of Rwf 195 each.
30 September	27,000 pots were sold during September at a price of Rwf 240 each.

The cost accountant of Kigali Ltd decided he would apply first-in-first-out basis and weighted average methods of material pricing for purposes of comparison.

Required

- A stores ledger account using the two methods and showing stock values at 30 September 2012. **(14 marks)**
 - The trading accounts using each of the above methods. **(6 marks)**
- (Total: 20 marks)**

QUESTION FOUR

Gatune Industries Ltd manufactures a product that undergoes three processes. The following details relate to the month of May 2013.

	Process			
	1	2	3	Total
	Rwf	Rwf	Rwf	Rwf
Basic raw materials (40,000 units)	24,000	-	-	24,000
Direct materials added in process	34,000	38,000	22,000	94,000
Direct wages	16,000	24,000	48,000	88,000
Direct expenses	4,800	3,720	5,360	13,880
Production overhead	-	-	-	66,000

	Units	Units	Units
Output	36,800	34,800	31,600
Normal loss in process of input	10%	5%	10%
	Rwf	Rwf	Rwf
Scrap value per unit	0.20	0.50	1.00

Production overhead is recovered as a percentage of direct wages. There was no stock at the beginning or closing of any process.

Required

- a) Process 1 account (5 marks)
- b) Process 2 account (5 marks)
- c) Process 3 account (5 marks)
- d) Abnormal loss account (2 marks)
- e) Abnormal gain account (3 marks)

(Total: 20 marks)

QUESTION FIVE

a) A factory issues a job to employee Abel to produce 35 units; it takes two standard hours to produce each article. Another job is given to employee Bilha to produce 60 units; it takes one and half-standard hours to produce each article. For every hour saved, a bonus is paid at 50% of the base rate, which is RWF 200 per hour. The factory works a 40-hour week and overtime is paid at a rate of one and a third. At the end of the week, Abel's and Bilha's clock cards show 49 and 46 hours respectively and the work is complete. However, three of Abel's units and three of Bilha's units failed to pass inspection. This was due to defective material and in view of this all the units produced were paid for, although as scrap they have no saleable value.

Required

For both Abel and Bilha:

- i) Bonus due. (4 marks)
 - ii) Total gross wages due. (4 marks)
 - iii) Wages cost per unit of units passing inspection. (2 marks)
- b) Business Ltd maintains separate cost and financial accounts. In the financial accounts for the three months ended 31 October 2012, the manufacturing, trading and profit and loss accounts were as follows:

	Rwf'000'	Rwf'000'
Raw materials:-		
Opening stock		976
Purchases		<u>2,160</u>
		3,136
Closing stock		<u>(1,040)</u>
Raw materials consumed		2,096
Direct wages	804	
Production overheads	<u>1,218</u>	<u>2,022</u>
Production cost		4,118
Work in progress		
Opening	1,280	
Closing	<u>(1,160)</u>	<u>120</u>
Cost of goods produced		<u>4,238</u>
Sales		8,800
Opening stock	2,400	
Cost of goods produced	<u>4,238</u>	
	6,638	

Closing stock	(2,438)	
Cost of goods sold		(4,200)
Gross profit		4,600

The following information was extracted from the cost accounting system.

- Control account balances.

	1 August 2012	31 October 2012
	Rwf'000'	Rwf'000'
Raw materials	990	1,022
Work in progress	1,202	1,139.4
Finished goods	2,268	2,516

- Production overheads amounted to RWF 1,487,400.
- The profit as per the cost accounting system amounted to RWF 4,566,000.

Required

A statement reconciling the cost accounting profit with the financial accounting profit. **(10 marks)**

(Total 20 marks)

QUESTION SIX

- State the advantages of using standard costs in the manufacturing industry. **(8 marks)**
- Hillary Furniture Ltd. manufactures a wide range of home furniture. Recently, the company added to its range a couch. The standard cost specification for each couch is given below:

	Quantity
Material	
Diamond (Rwf 280 per kg)	6 kg
Cinder (Rwf 300 per litre)	0.5 litre
Labour (Rwf 60 per hour)	8 hours

During the month of September 2012, 620 couches were manufactured. The actual quantities and costs incurred were as follows:

	Quantity	Rwf
Materials: Diamond (kg)	4,500	1,125,000
Cinder	290	364,000
Labour hours	5,200	364,000

The abnormal idle hours were recorded as 4,800 hours.

Required:

- Materials price variance (for both materials); **(2 marks)**
- Material usage variance (for both materials); **(2 marks)**
- Labour rate of pay variance; **(2 marks)**
- Labour efficiency variance; **(2 marks)**

v) Idle time variance (2 marks)

vi) Suggest possible causes of the material variances. (2 marks)

(Total: 20 marks)

End of question paper

