
**CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 2 EXAMINATIONS**

F2.1: MANAGEMENT ACCOUNTING

MONDAY 2 DECEMBER 2013

INSTRUCTIONS:

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

QUESTION ONE

(a) The central purpose of management accounting is to provide management with the information required to direct the internal affairs of an organization.

Required:

- a) Explain how this central purpose can be achieved in an organization. **(12 Marks)**
 - b) Describe the attributes of good management accounting information. **(8 Marks)**
- (Total 20 Marks)**

QUESTION TWO

Kayonza Company manufactures its products through two processes 1 and 2. Work in progress on 1st April 2009 was

Process 1:	200 units	Frw '000'
	Direct materials	1000
	Direct labour	400
	Overheads	600
Process 2:	600 Units	
	Direct materials	3400
	Direct labour	760
	Overheads	1200

Additional information:

- i. The goods were 100% complete as regards direct materials and 75% with regard to labour and overheads.
- ii. The additions during the month were:
 - Process 1:
 - Direct materials; Frw 1,940,000
 - Labor :Frw. 728,000
 - Overheads, Frw 1,080,000
 - Process 2:
 - Direct material, Frw 560,000
 - Labor, Frw 2,240,000
 - Overheads, .Frw 4,200,000
- iii. By end month, 4000 units were completed and passed from process 1 to 2.
- iv. Closing work in progress in process 1: 1600 units, 100% complete as to direct materials, 90% as regards labour and overheads.

- v. 10,000 units were completed in process 2 and taken to finished goods while 4000 units remained in progress, 100% complete as to direct materials and 50% complete as to labour and overheads.

Required:

Using FIFO basis

- i) The whole equivalent units statement for processes **(6 Marks)**
- ii) The cost per unit of good output for process 1 **(4 Marks)**
- iii) Valuation of the units transferred to process 2 **(4 Marks)**
Process 1 account **(6 Marks)**

(Total 20 Marks)

QUESTION THREE

- a) Distinguish between standard costing and budgetary control **(4Marks)**
- b) With respect to standard costing and with relevant examples discuss the following types of standards:
 - i) Basic standard **(2 Marks)**
 - ii) Ideal standard **(2 Marks)**
 - iii) Expected standards **(2 Marks)**
 - iv) Current standards **(2 Marks)**
- c) Hygiene products Ltd manufactures a single product, melamine kitchen sink with a standard cost of **Frw 8,000** made up as follows:

	Frw
Direct materials (15 square metres at Frw 300 per square metre)	4,500
Direct labour (5 hours at 400 per hour)	2,000
Variable overheads (5 hours at 200 per hour)	1,000
Fixed overheads (5 hours at 100 per hour)	500
	8,000

The standard selling price of the kitchen sink is 10,000. The monthly budget projects production and sales of 1,000 units.

Actual figures for the month of July 2012 were as follows:

Sales	1,200 units at 10,200 per unit
Production	1,400 units
Direct materials	22,000 square meters at 400 per square meter
Direct wages	6,800 hours at 500 per hour
Variable overheads	1,100,000
Fixed overheads	600,000

Required:

- i) Material price variance (2 Marks)
- ii) Material usage variance (2 Marks)
- iii) Labour rate variance (2 Marks)
- iv) Labour efficiency variance (2 Marks)

(Total 20 Marks)**QUESTION FOUR**

a) Ushindi Ltd manufactures ornaments for export trade. Jobs are allocated to two operators, Mboge and Njuguna with bonus paid for hours saved.

In the month of February 2012, Mboge made **186 units** and Njuguna made **210 units** for which the time allowed of **30 standard minutes** and **25 standard minutes per unit** respectively was credited. The Basic rate was Frw **18 per hour** for **both employees**.

For every hour saved, a bonus was paid at 20% of the basic wage rate. Hours worked in excess were paid at the basic wage rate plus two thirds. Mboge completed his job in **44 hours** and Njuguna completed his job in **39 hours**. A basic week has **40 hours**.

Required:

For each operator, compute:

- i) The amount of bonus payable (3 Marks)
- ii) The total gross wage payable (2 Marks)
- iii) The wage cost per unit (2 Marks)

b) PQR is a manufacturer of sports shoes. The standard cost per pair of sports shoes is as follows:

Direct materials	500
Direct labour: 4 hours x Frw 60 per hour	240
Production overheads:	
Variable 4 hours x Frw 30 per hour	120
Fixed	100
Standard production cost	960
Standard selling price	1,500

Additional information:

1. During the month production was **10,000 units** as planned but the sales made were **8,000 units**.

2. Other costs incurred during the month were as follows:

	Variable	Fixed
Selling and distribution	20% of sales	600,000
Administration		1,000,000

Required:

- a) Absorption costing statement (5 Marks)
- b) Marginal costing statement (5 Marks)
- c) Explain the reason why the income statement under absorption costing shows a different profit or loss figure compared with the income statement under marginal costing statement. (1 Mark)
- d) Reconciliation statement of the difference between the profit or loss under absorption costing and marginal costing above. (2 Marks)

(Total 20 Marks)**QUESTION FIVE**

- a) In the context of budgetary control explain the main functions and importance of a cash budget. (5 Marks)
- b) You are in charge of making forecasts and preparing budgets. You have been supplied with cost and revenue forecasts and details of payment as follows:

1. Forecast of revenue and costs for the quarter ending 31 March 2013

	January	February	March
Direct			
Materials (purchases)	112,000	100,000	135,000
Wages	90,000	80,000	100,000
Overhead			
Production	34,000	32,000	40,000
Administration	22,000	20,000	27,000
Selling and distribution	13,000	11,000	18,000
Sales	360,000	350,000	440,000

2. Forecast of revenue and costs for the quarter ending 30 June 2013

	April	May	June
Direct			
Materials (purchases)	90,000	67,000	79,000
Wages	72,000	54,000	63,000
Overhead			
Production	45,000	36,000	40,000
Administration	22,000	25,000	27,000
Selling and distribution	13,000	11,000	16,000
Sales	350,000	360,000	360,000
Cash balance on 1 April 2013 Frw. 90,000			

a) Other details

- Period of credit allowed by suppliers averages two months.
- Debentures to the value of Frw. 125,000 are being issued in May 2013 and the amount is expected to be received during the month.
- A new machine is being installed at the end of March 2013 at a cost of Frw 150,000 and payment is promised in early May 2013.
- Sales commission of 3% is payable within one month of sales.
- A dividend of Frw 100,000 is to be paid in June 2013.
- There is a delay of one month in the payment of overheads. There is also a delay in payment of wages averaging a quarter of a month.
- Twenty per cent of the debtors pay cash, receiving a cash discount of 4% and 70% of debtors pay within one month and receive a cash discount of 2 ½%. The other debtors pay within two months.

Required:

Cash budget on a monthly basis for the second quarter (April-June) 2013. **(15 Marks)**

(Total: 20 Marks)

QUESTION SIX

- a) State and briefly explain three assumptions underlying break-even theory. **(6 Marks)**
- b) Jamaa Ltd manufactures and sells a single product the following information regarding company's operations for year ended 30/09/2012 was presented to you.

Sales	30,000
Less: direct material	6,500
Labour	5,400
Variable production overheads	7,000
	11,100
Other expenses: selling – Variable	2,600
Fixed	1997
Administration	2,100
	4,403

The following changes are expected to occur to 30/09/2013

- i. Selling price will go down by 3% in order to attract customers
- ii. Material cost will increase by 2% due to inflation
- iii. Labour cost will reduce by 4%
- iv. Production overheads will increase by 3%
- v. Variable selling costs will reduce by 5% for increasing efficiency of sales persons
- vi. All other factors remains the same

Required:

- i. Break even sales revenue **(4 Marks)**
- ii. Margin of safety in sales value **(2 Marks)**
- iii. The sales value at which profit of 4,500,000 will be achieved **(2 Marks)**
- iv. A summary of operating statement that shows the net profit in (iii) above **(6 Marks)**

(Total 20 Marks)

QUESTION SEVEN

Kigari Engineering Company Limited wishes to set flexible budgets for each of its operating departments. A separate maintenance department performs all routine and major repair works on the company's equipment and facilities. The company has determined that maintenance department performs all routine and major repair works on the company's equipment and facilities. The company has determined that maintenance cost is primarily a function of machine hours worked in the various production departments.

The maintenance cost incurred and the actual machine hours worked during the months of May, June, July and August 2013 were as follows:

Month	Machine hours in	Maintenance
	Production departments	department's Costs
May	800	350
June	1,200	350
July	400	150
August	1,600	550

Required:

- a) Determine the cost estimation function using:
- i. High-low method. **(5 Marks)**
 - ii. Regression analysis. **(5 Marks)**
- b) Using the regression function estimate:
- i The maintenance costs that would have been incurred if the machine hours were expected to be 900 in the month of September 2013. **(1 Mark)**
 - ii The maximum machine hours that would have been worked if the maintenance cost incurred had been limited to Frw 400, 000.00 for the month of September 2013. **(6 Marks)**
- c) Assuming that in the month of September 2011 machine hours were 900, establish a 95% confidence interval for this point estimate. (Assume $t_c = 2.7764$ and standard error of estimate, $s_e = 63.25$). **(3 Marks)**

(Total: 20 Marks)

End of question paper

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