

CERTIFIED PUBLIC ACCOUNTANT FOUNDATION LEVEL 2 EXAMINATIONS <u>F2.1: MANAGEMENT ACCOUNTING</u> DATE: WEDNESDAY, 26 APRIL 2023 MARKING GUIDE AND MODEL ANSWERS

023 IcparApril F2.1 cparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcPage 1 of 25

QUESTION ONE

Marking Guide ³ IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023	Marks
(a)Absorption costing Profit statement	cparApril20
Calculation of sales revenues (0.5 Mark per month*2)	cparApril ²
Calculation of amount of opening inventory (0.5 Mark per month*2)	cparApril2
Calculation of amount of production costs (0.5 Mark*2)	cparApril
Calculation of amount of closing inventory (0.5 Mark*2)	cparApril4
Calculation of amount of Under/over absorption (0.5 Mark*2)	cparApril4
Calculation of gross profit (0.5 Mark*2)	cparApril4
Calculation of amount of Net profit (1Mark*2)	cparApril 2
Maximum Marks	cparApril.8
(b) Item Marginal Costing Operating Statement	cparApril2(
Calculation of sales revenues (0.5Mark*2)	
Calculation of amount of opening inventory (0.5Mark*2)	cparApril4
Calculation of amount of production costs (0.5Mark*2)	cparApril2
Calculation of amount of closing inventory (0.5Mark*2)	cparApril2
Calculation of gross margin (1Mark*2)	cparApril 2
Calculation of amount of Net profit (1Mark*2)	cparApril 2
123 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023	cparApril ₈
(c) Difference in profit figures calculated under absorption and marginal costing principles	
1Mark should be awarded to each well-explained difference (Maximum 2 Marks)	cparApril 2 [cparApril2(
(d) Reconciliation between profit under absorption and profit under marginal	cparApril2(cparApril2)
Each well-reconciled amount should be awarded (1Mark*2)	cparApril 2
Total ^{parApril2023} IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023	20 Marks

023 IcparApril Model Answer 023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2

(a) Absorption Costing Profit Statement

2023 IcparApril2023 IcparApril2023 Id	November	November	December	December
2023 1cparApril2023 1cparApril2023 1c 2022 Tanay Amil2022 Tanay Amil2022 T	FRW	FRW	FRW	FRW
Sales (50,000*300) (50,000*500)	pur April 2023 mar April 2023	15,000,000	3 IcnarAnril20	25,000,000
Less: Cost of sales	parApril2023	IcparApril202	3 IcparApril20	23 IcparApril2(
Opening Inventory (W2) pril2023 Id	parApril2010	IcparApril202	5,200,000	23 IcparApril20
Production (W1) 3 Jepar April 2023 Id	13,000,000	IcparApril202	9,880,000	23 IcparApril20
Closing Inventory (W2)	5,200,000	(7,800,000)	2,080,000	(13,000,000)
Under/over absorption Fixed (W3)	parApril2023	1,000,000	3 IcparApril20	(200,000)
Gross Profit	parApril2025	8,200,000	3 IcparAprii20 2 Ionar (nrii120	11,800,000
Less expenses	narAnril2023	IcparApril202	3 IcnarApril20	23 Icnar Anril?(
Variable Sales Commission	750,000	IcparApril202	1,250,000	23 IcparApril2(
Fixed Administration costs 12023	2,000,000	IcparApril202	2,000,000	23 IcparApril20
Fixed Selling costs	4,000,000	(6,750,000)	4,000,000	23 (7,250,000)
Net Profit ril2023 IcparApril2023 Id	parApril2023	1,450,000	3 IcparApril20	4,550,000

023 Jepar April F2.1 cpar April2023 Jepar April202

Working 1: Calculation of production costs

Particular r112023 IcparApril2023 IcparApril2023 Id	November	December	
023 IcparApril2023 IcparApril2023 IcparApril2023 Ic	FRW	FRW	
Direct materials	8,000	8,000	
Direct labour 2023 IcparApril2023 IcparApril2023 Id	parAm 12023 Icpa 5,000	023 Jepar 5,000	
Variable production overheads	3,000	3,000	
Fixed production overheads (4000000/400)	par April 2023 Icp 10,000	023 Icpa10,000	
Total cost per unit CparApril2023 IcparApril2023 Id	26,000	26,000	
Quantity produced	500	380	
Total production cost	13,000,000	9,880,000	

Working 2: Calculating the value of inventory:

Months	Working	November	Working	December
Opening inventory	cparApril2023 IcparAp	il2023 Icpai 0 p	(200 units*26000)	5,200,000
Production	(500 units*26,000)	13,000,000	(380 units* 26000)	9,880,000
Closing inventory	(200 units*26,000)	5,200,000	(80 units*26000)	2,080,000

023 IcparApril Working 3: Under/over absorptions: rApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2

Particulars 12023 IcparAp	Working	November	Working	December
Actual fixed production Overheads	ril2023 IcparApril ril2023 IcparApril ril2023 IcparApril	4,000,000	1023 IcparApril201 1023 IcparApril201 1023 IcparApril201	4,000,000
Fixed production overheads absorbed	(500*10,000) (12023 [cpar April	2023 5,000,000 2023 IcparApril	(380*10,000)	3,800,000
023 IcparApril2023 IcparAp 023 IcparApril2023 IcparAp	Over absorption	1,000,000	Under absorption	200,000 3 Icpar April 2

b) Marginal Costing Operating Statement

023 IcparApril2023 IcparApril	2023 Icpa NOVEMBER April202		DECEMBER		
Particulars 023 IcparApril2023 IcparApril	2023 Icpa FRW 202	23 Icpo FRW 023 Icpar A FRW		3 Icpar FRW	
Sales Dar April 2023 Icpar April	2023 IcparApril202	15,000,000	IcparApril20.	25,000,000	
Less: cost of sales	2023 IcparApril202	3 IcparApril2023	IcparApril20		
Opening inventory (W2)	2023 IcparApril 202	3 IcparApril2023	3,200,000		
Production (W1)	8,000,000	3 IcparApril2023	6,080,000		
Closing inventory (W2)	3,200,000	4,800,000	1,280,000	8,000,000	
Variable sales commission	2023 IcparApril202 2023 IcparApril202	750,000	IcparApril20	1,250,000	
Contribution 023 IcparApril	2023 IcparApril202	9,450,000	IcparApril201	15,750,000	
Less: Fixed expenses	2023 IcparApril202	3 IcparApril2023	IcparApril202	3 IcparApril2	
Production fixed expenses	2023 4,000,000 02	3 IcparApril2023	4,000,000		
Fixed administration costs	2023 2,000,000 02	3 IcparApril2023	2,000,000		

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625 LeparApril2023 LeparApril	NOVEN	MBER	DECEMBER		
Particulars 023 Icpar April2023 Icpar Ap	FRW 023 Tepe FRW 02	FRW	FRW	FRW	
Fixed selling costs IcparAp	4,000,000 02	3 10,000,000	4,000,000	10,000,000	
Net Profit ril2023 IcparAp	ril <mark>2023 IcparApril2</mark> 02	3 100 -550,000	IcparApril20	5,750,000	

Production Costs IcparApril2023 IcparApril2023 IcparApril2	023 IcparApril2023 Icpar FRW (
Direct materials ²³ Icpar April2023 Icpar April2023 Icpar April2	023 Icpar April2023 Icpar 8,000
Direct labour 2023 Icpar April2023 Icpar April2023 Icpar April2	023 IcparApril2023 Icpar 5,000
Variable production overheads	023 IcparApril2023 Icpar 3,000
Total	16,000

Working 2: Calculating inventory and production costs

Particulars 2023 Icpar	rApril2023 Ici November IcparApril20		Decemb	er par April 2
Opening inventory	April2023 IcparApril2	023 IcparAp ₀ 20	200*16000	3,200,000
Production	500*16,000	8,000,000	380* 16000	6,080,000
Closing inventory	200* 16000	3,200,000	80*16000	1,280,000

(c)Difference in profit figures calculated under absorption and marginal costing principles: The difference between the profit figures calculated under absorption and marginal costing principles is caused by the treatment of fixed production overheads. In marginal costing the full amount of fixed production overheads is written off in the period that it occurs. In absorption, part of the fixed production overheads is carried between accounting periods as part of inventory valuations.

(d) Reconciliation between profit under absorption and profit under marginal.

Particulars 2023 IcparApril2023	cparApril2023 Ic	November	parApril202.	December
Profit under absorption	cparApril2023 IC	1,450,000	parApru202.	4,550,000
Difference in units of inventory * fixed production overhead p/u	(200 units* 10,000)	2,000,000	(120units *10,000)	1,200,000
Profit under marginal costing	cparApril2023 Ic	-550,000	parApril202.	5,750,000

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QUESTION TWO

Marking Guide 23 Jonar April 2023 Jon	Marks
(a) Factors that have contributed to the growth and importance of management accounting: Factors up to maximum of four should be awarded (0.5 Marks*4)	arApril20. arApril 2).
Candidates who has explained factors up to maximum of four should be awarded (0.5 Marks*4)	arApril20. arApril. 2).
Maximum pril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 Icp	arApril ₄)
(b) The difference between financial accounting and management accounting Each well explained difference; candidates should be awarded 1Mark up to maximum of four (1 Mark *4)	arApril 4). arApril20. arApril20.
(c) The role of the management accountant in enhancing and improving a business (1Mark per each role well explained maximum 6)	arApril20. arApril6
(d) Meaning of the terms Candidates should be awarded 1 Mark for each term well explained (1 Mark*6)	arApril20. arApril26
2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 Icp 2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 Icp 2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 Icp	Total: 20 Marks

Model Answers

(a) Factors that have contributed to the growth and importance of management accounting

Management accounting has grown and become more important as a result of the following factors:

- Changing cost structures in the past materials and labour comprised the highest product costs but this has changed, in many cases overheads are now more significant and need to be carefully monitored. Management accounting facilitates the monitoring and control of costs.
- Increased competition it is now more important than ever to have accurate cost information as companies are competing not just in terms of product price but also other factors such as product quality and customer service. Access to accurate cost information allows companies to focus attention away from pricing to other significant factors.
- **Global market** with improvements in transportation and communication the market for customers has expanded and so too have company operations. Management accounting enables cost information to be provided and analyed across divisions, segments and countries to support overall activities of the company.
- **Internet opportunities** the arrival of the internet has brought more opportunity to buy and sell products and services more easily, and to monitor competitors and consumer trends. Management accounting may be applied to gather cost information from all sources easily.
 - **Changing customer needs** customers have become more discerning and it is now more important to have pertinent information relating to customers and their profitability to a business. Management accounting allows companies to use cost information and techniques to obtain data on the cost of providing services to customers.

 Changing product lifecycles – due to intense competition and changing customer needs product lifecycles are becoming shorter. Companies need to be ready and able to introduce new products quickly and management accounting can facilitate this process by providing essential information for costing and decision making.

Any other relevant point

(b) The difference between financial accounting and management accounting

There are a number of areas where financial accounting differs from management accounting:

- Financial accounting has an external focus. It is designed to provide information to users who are external to an organisation, whereas management accounting has an internal focus. It is designed to assist company managers in planning, controlling and decision-making activities.
- There is a legal requirement for companies to prepare financial statements while there is no legal requirement to prepare management accounts.
- Financial accounting focuses on the **organisation as a whole** while management accounting information may focus on **many areas** as required by the company.
- Financial accounting information is presented in a **format prescribed by law** and by accounting standards, whereas the layout and substance of management accounting information is **decided by company management**.
- Usually most financial accounting information is expressed in monetary terms however management accounting information may include both monetary and non-monetary information.
- Financial accounting information provides information on what has **happened in the past**, while management accounting may be **used for planning purposes** and also for presenting information on past activities.

(c) The role of the management accountant in enhancing and improving a business

As part of their role, management accountant provides information to facilitate a range of activities including:

Allocation of costs between cost of goods sold and inventories

It is important to allocate costs to products as accurately as possible in order to establish the profitability of the business. The management accountant ensures that cost information is collected and correctly allocated to cost of sales or inventories as appropriate. The management accountant may use techniques such as activity-based costing to allocate overheads to products or the first in first out (FIFO) method to value inventory.

Planning and controlling

To carry out their roles effectively the various managers in a business require information to assist them in planning and controlling the operations of the organisation. Planning involves translating goals and objectives into the specific activities and resources that are required to achieve the goals and objectives. The management accountant is involved in the preparation of both long term and short-term plans. Budgets are short-term plans that are prepared in more detail than longer term plans. Control involves the process of ensuring that actual outcomes conform to planned or expected outcomes. Budgets may be used to support the controlling of activities by providing a measure against which actual performance may be compared.

Performance measurement

The management accountant generates periodic reports, which compare actual performance to plan, and provides these to managers enabling them to determine if operations are proceeding as expected and to identify where corrective action may be required. These periodic reports also allow managerial performance to be evaluated and provide incentives for managers to try to achieve favourable results.

Decision making

Managers also require information to assist them with routine and non-routine decision making. Routine decisions relate to issues such as assessing the profitability of different segments of an organisation such as products, services and customers. Non-routine decisions are made infrequently and may relate to strategic issues such as the introduction of new products or services. The information provided by the management accountant to support these decisions may be financial or non-financial in nature, depending on what best meets the needs of management. In many instances cost information accumulated by the management accountant is relied upon to inform decisions, and therefore it is critical that such information be of a high quality.

(d) Meaning of the terms:

i) 23 I

Direct costs – these are costs that can be specifically and exclusively identified with a particular cost object.

For example, if it takes 1kg of material to make each unit of product then the material cost is called a direct cost as there is a specific, identifiable relationship between the material and the manufacture of the product.

Indirect costs – contrary to direct costs, these are costs that cannot be specifically and exclusively identified with a cost object. For example, if a company employs casual workers in the factory to keep it clean and tidy the cost of this staff is considered to be an indirect labour cost as no specific identifiable relationship can be established between the manufacture of a product and these labour costs.

ii)

Variable costs – costs are classified as variable when they vary in direct proportion to the volume of activity.

For example, staff paid on a piecework basis so that the more they produce the higher the labour cost.

Fixed costs – are costs that remain constant over a wide range of activity for a specific time period. For example, factory rent or factory insurance may remain constant for a particular capacity or volume or time.

Product costs – are those costs associated with goods purchased or manufactured for resale. In a manufacturing organisation all manufacturing costs are considered to be product costs. In a non-manufacturing organisation, the cost of goods purchased is considered to be a product cost and all other costs are not. For example, the cost of the wood used in in producing a table is a product cost.

Period costs – these are costs that are not associated with the manufacture of a product; they are incurred by a company to operate its business and usually occur from year to year. For example, administration costs such as auditors' fees are period costs as they do not relate to the product and usually are incurred every year.

QUESTION THREE

iii)

Marking Guide	Marks
(a) 0.5 marks for each ethical standard with responsibilities and 0.5 mark for well explained Maximum 5marks)	cparApril.5) [cparApril20]
(b) (i) Workings- Process I (1 mark is allocated to the computation of the cost per equivalent unit (FRW), 0.5 marks allocated to the computation of the cost allocation)	cparApril20 cparApril20 cparApril20
Workings- Process II (1 mark is allocated to the computation of the cost per equivalent unit (FRW), 0.5 marks allocated to the computation of the cost allocation)	cparApril20. cparApril20. cparApril20.
Process I account (0.5 mark for total tones in debit side of process 1.5 Marks for Amount in debit side, 0.5 mark for total tones in Credit side of process 1.5 Marks for Amount in credit side)	cparApril 3 (cparApril 20. (cparApril 20.
Process II account (0.5 mark for total tones in debit side of process 1.5 Marks for Amount in debit side, 0.5 mark for total tones in Credit side of process 1.5 Marks for Amount in credit side)	cpar April 30. cpar April 20.
(ii) Normal loss (0.5 per each column max 2) 023 IcparApril2023 IcparApril2023	cparApril20
(iii) Abnormal loss or abnormal gain account (0.5 per each column max 4)	leparApril20 CeparApril20
Total 023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023	20 Marks

Model Answers²³ IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023

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a) Adherence to these standards internationally is integral to achieving the objective of management accounting.

Competence: Practitioners of management accounting and financial management have a responsibility to:

Maintain an appropriate level of professional competence through the ongoing development of their knowledge and skills.

- Perform their professional duties in accordance with relevant laws, regulations, and technical standards.
 - Prepare complete and clear reports and recommendations after appropriate analysis of relevant and reliable information.

Confidentiality: Practitioners of management accounting and financial management have a responsibility to:

- Refrain from disclosing confidential information acquired in the course of their work except when authorized, unless legally obligated to do so.
- Inform subordinates as appropriate regarding the confidentiality of information acquired in the course of their work and monitor their activities to assure the maintenance of that confidentiality
- Refrain from using or appearing to use confidential information acquired in the course of their work for unethical or illegal advantage either personally or through third parties.

Integrity: Practitioners of management accounting and financial management have a responsibility to:

- Avoid actual or apparent conflicts of interest and advise all appropriate parties of any potential conflict.
- Refrain from engaging in any activity that would prejudice their ability to carry out their duties ethically.
- Refuse any gift, favor, or hospitality that would influence or would appear to influence their actions.
- Refrain from either active or passively subverting the attainment of the organization's legitimate and ethical objectives.
- Recognize and communicate professional limitations or other constraints that would preclude responsible judgment or successful performance of an activity.
- Communicate unfavorable as well as favorable information and professional judgment or opinion.
- Refrain from engaging or supporting any activity that would discredit the profession.
- **Objectivity**: Practitioners of management accounting and financial management have a responsibility to:
- Communicate information fairly and objectively,
- Disclose fully all relevant information that could reasonably be expected to influence an intended user's understanding of the reports, comments, and recommendations presented.

Credibility

- Communicate information fairly and objectively, parApril2023 IcparApr
- Disclose fully all relevant information that could reasonably be expected to influence an intended user's understanding of the reports, comments, and recommendations presented.

b) (i) Workings: Process I Inputs Total **Equivalent units** Physical Conversion Materi units als costs Tones Tones Tones Input Opening work in progress 60,000 Materials inputs 160,000 220,000 **Outputs** Closing work in progress 35,000 35,000 17,500 8,000 Normal loss (5% *materials inputs) Abnormal loss (Balancing figure) 2,000 2,000 2,000 17<u>5,000</u> 175,000 175,00 Transferred to Process II 0 220,000 212,00 194,500 0 Cost Opening inventory 15,000 10,625 Total costs incurred 38,400 30,220 Less scrap value (0.05FRW per tonne) (400)Total cost to be allocated FRW 53,000 40,845 93,845 Cost =93,845/220,000, FRW FRW **FRW 0.21** per equivalent unit 53,000/212,000, 40,845/194,500 0.426 0.25 **Cost allocation** FRW Value of outputs transferred to Process II (175,000 tones*0.426 FRW Per 74,550 tone) 852 Value of Abnormal loss (2,000 tones*0.426 FRW per tone) Value of closing work in progress (35000 tones i.e. 50% complete) Materials:35000 tones *FRW 0.25 8750 Conversion costs:17,500 tones *FRW 0.21 3675 87,827

023 IcparApril Workings: Process II arApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2

Inputs	Total	Equivalent unit	8	23 IcparApril2
	Physical units	Process II costs	Conversion overheads	23 IcparApril2 23 IcparApril2
	Tones	Tones	Tones	23 IcparApril2
inputs				23 IcparApril?
Opening work in progress	25,000			23 IcnarApril2
Materials transferred from process	<u>175,000</u>			23 IcparApril2

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<u>12022 I</u>	Towned and 12022-1	aman Amuil2022 Tan	autaui12022 Tanautaui120
	200,000		
Outputs			
Completed and transferred	185,000	185,000	185,000
Closing work in progress	10,000	10,000	5,000
Abnormal loss (Balancing figure)	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>
	200,000	200,000	195,000
<u>Costs:</u>	FRW	FRW	FRW
Opening WIP		11,500	2,750
Prior process costs transferred		80,500	-
from Process I			
Costs incurred		<u> </u>	<u>20,650</u>
Total costs to be allocated	115,400	92,000	23,400
Cost per equivalent unit (FRW)	0.58	0.46	0.12
			FRW
Valuation of finished output	Icnar April 2023	enar Anril 2023 Ten	107,300
transferred:185,000 tones @FRW	IcparApril2023 1	cparApril2023 Icp	arApril2023 IcparApril20
0.58 per tone	IcparApril2023 1	cparApril2023 Icp	arApril2023 IcparApril20
2023 IcparApril2023 IcparApril2023	IcparApril2023 1	cparApril2023 Icp	arApril2023 IcparApril20
Cost allocation			
Value of Abnormal loss (5,000			2,900
tones*0.58 FRW per tone)			
Value of closing Work in progress			
(10,000 tones i.e. 50% complete)			
Prior process costs:10,000 tones			4,600
*FRW 0.46			
Conversion costs: 5,000 tones			<u>600</u>
*FRW 0.12			
			115,400

2023 IcparApril2023 Icpar

	Tones	FRW	April2023 IcparApril2023 Icp	Tones	FRW
Opening stock	60,000	25,625	A Normal loss April2023 Icr	8,000	cparAp400
023 IcparApril2023	IcparApril	2023 Icpar.	Transferred to Process II	175,000	80,500
Inputs ar April 2023	160,000	2023 Icpar	Abnormal loss 12023 Icp	arApri2,000	cparAp920
Materials 2023	IcparApril	38,400	April2023 IcparApril2023 Icp	arApril2023 1	cparApril2(
Labor& overhead	I <u>c</u> parApril	30,220	Closing WIP	35,000	12,425
023 IcparApril2023	220,000	94,245	April2023 IcparApril2023 Icp	220,000	94,245

Process II account

1023 IcparApril2023 Icparz	Tones	FRW	April2023 IcparA	Tones	FRW	23 IcparApril2
Opening WIP	25,000	pruzozo iepur. pril2023 Iepar	April2025 IcparA April2023 IcparA	pru2025 1 Invi12023 1	parApruzo. marAnvil20	23 IcparApril2 23 IcparApril2

023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 Icpa

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Prior process costs	025 Icpurnp	11,500	Completed	185,000	107,300
023 IcparApril2023 IcparApril2 023 IcparApril2023 IcparApril	023 IcparAp		and	oru2023 10 nei12022 I.	
	023 IcpurAp 023 IcparAn		transferred	nril2023 Ic	
Conversion costs	023 IcnarAn	2,750	Abnormal loss	5,000	2,900
Transferred in from process I	175,000	80,500	Closing WIP	10,000	5,200
Conversion costs	023 Icpa <u>r</u> Ap	20,650	April2023 IcparA	pril2023 -I c	parApril2
023 IcparApril2023 IcparApril2	200,000	12 115,400	April2023 IcparA	200,000	115,400

ii) Normal loss

023 IcparAprili

1025 IcparApru2025 I 1023 Icpar Anvi12023	Tones	FRW	12023 10parApril2023 10parA 12023 IonarApril2023 IonarA	Tones	FRW
Process I Account	8,000	<u>400</u>	Cash for units scrapped	8,000	<u>400</u>
2023 IcparApril2023	8,000	400	12023 IcparApril2023 IcparA	8,000	400

iii)Abnormal loss 3 Icpar April 2023 Icpar

2023 IcparApril2023 Id	Tones	FRW	pril2023 IcparApril2023 Icpar.	Tones	FRW 120
Process I Account	2,000	23 920	Cash for units scrapped	7,000	par 4 350
Process II Account	5,000	2,900	Income statement (Loss)	April2023 Id	3,470
2023 IcparApril2023 Ic	7,000	3,820	pril2023 IcparApril2023 Icpar.	7,000	3,820

QUESTION FOUR

Marking Guide 23 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 Icp	Marks
(a) Profit computation for budgeted amount (1.5 marks is allocated to the computation of the total cost on budgeted the 1 mark is allocated to the computation of the profit on budgeted figures)	par April 2 par April 2 par April 2 par April 2 par April 2
Profit computation for actual amounts (1.5 marks is allocated to the computation of the total cost on actual and while 1 mark is allocated to the computation of the profit on actuals)	parApt 2.5 parApril20 parApril20
Maximum pril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 Ic	parApril5
(b) (i) The memorandum for Ms. Yuliyana outlining the incremental budgeting including one advantages and one disadvantages well prepared 1 mark for format, 1 mark for one advantage and 1 mark for one disadvantage)	par April 2 par April 2 par April 2 par April 20
(ii) Description of the 6 main purposes of budgeting. (0.5 marks are allocated for each purpose maximum 3)	ar April 3 par April 2
Explanation of any two advantages and disadvantages of the Zero-Based Budgeting. (0.5 mark for one advantage of the Zero Base Budgeting and hence 2 advantages $*0.5 = 1$ mark and 0.5 mark for one advantage of Zero Base Budgeting and hence 2 advantages $*0.5 = 1$ mark)	parApril2 parApril2 parApril2 parApril2 parApril2
Maximum pril2023 IcparApril2023 Icpa	par April 8
(c)Preparation of the perpetual inventory record for the product RWOX9 under the FIFO 1 marks are allocated to each of the totals of the last row=7 marks	parApril 7

023 IcparApril F2.1 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 I Page 12 of 25 IcparApril2

Maximum

oril2023 IcparApril2023 IcparApril20

Total marks for the question

Model Answers

2023 IcparApril2(Details arApril2(2023 IcparApril2(Budget	¹²⁰²³ IcparApril2023 Icpa ¹²⁰²³ Working 1 ^{-3 Icpa} 12023 IcparApril2023 Icpa	Per uni t	Working 2 023 Icpar April 20 023 Icpar April 20	Flexible Budget for 3,800,000
Production/Sal es (units)	2,750,000	12023 IcparApril2023 Icpa 12023 IcparApril2023 Icpa	300	3,800,000*300	1,140,000,00 0
Less cost April2	23 IcparApri	l2023 IcparApril2023 Icpa	April2	023 IcparApril20	23 IcparApril20.
Direct labour hours	8,250,000	8,250,000/2,750,000=3	A 15 April 2	3*3,800,000*1 5	171,000,000
Direct materials (Kg)	5,500,000	5,500,000/2,750,000=2	25	2*3,800,000*2 5	190,000,000
Variable overheads (FRW)	85,250,00 0	85,250,000/2,750,000 =31	Apr i l2 April2 April2	31*3,800,000	117,800,000
Fixed overheads (FRW)	79,750,00 0	79,750,000/2,750,000= 29	Apr i l2 April2 April2	79,750,000	79,750,000
Total cost 4pril2	23 IcparApri	l2023 IcparApril2023 Icpa	April2	023 IcparApril20	558,550,000
Profit	23 IcparApri	12023 IcparApril2023 Icpa	April2	023 IcparApril20	581,450,000

Details ar April 2023 Icpar April 2(23 Ic	parApril2023 Actualoril	02 Per unit	2023 Actual mil2
Production/Sales (units) April 23 10	parApril2 23,800,000	023 300 Apri	2 1,140,000,000
Direct labour hours (parApril2) 23 Id	parApril2027,560,000 1	023 I 15 trApri	202113,400,000
Direct materials (Kg)	parApril2 24,320,000	023 I 30 r Apri	202129,600,000
Variable overheads (FRW)	par April 2 85,000,000		85,000,000
Fixed overheads (FRW)	76,000,000	023 IcparApri	76,000,000
2023 1cparApril2023 1cparApril2025 1c	parApril2023 IcparApril2	023 IcparApri	404,000,000
2023 IcparApril2023 IcparApril2023 Ic	parApril2023 IcparApril	023 IcparApri	736,000,000

(b)

(i)

Memorandum

To: Ms Yuliyana Day

- From: A certified public accountant
- Re: Aspects of budgeting pril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023

Date: August 2021

As requested I have prepared a memorandum to address your queries in relation to budgeting. Firstly, an outline of incremental budgeting and its associated advantages and disadvantages is presented. Next, the main features of zero-based budgeting including advantages and disadvantages are outlined. Finally, some behavioral issues that may arise as a result of the annual budgeting process are discussed briefly.

Incremental budgeting

This starts with the budget from the previous period and adds or subtracts an incremental amount to cover inflation and other known expenses. It is suitable for stable businesses, where costs are not expected to change significantly and where there is good cost control and limited discretionary expenses.

Advantages

It is a quick and easy method of budgeting. Only the increment (extra amount) needs to be justified in organizations that have stable and historic figures.

Any other relevant point.

Disadvantages

Incremental budgeting carries forward previous problems and inefficiencies to the next budgeting period.

Using incremental budgeting may result in uneconomic activities being continued. Managers may spend unnecessarily to use up their budgeted expenditure to ensure that they will get the same or a larger budget next year.

Any other relevant point.

(ii) The SIX purposes of budgeting

There are many reasons for preparing budgets, the SIX main purposes may be summarized as follows:

Planning: budgeting facilitates planning for future operations as managers become aware of the long-range objectives of the company. It also encourages managers to anticipate potential problems that may occur and plan their resolution. **Co-ordination**: there is better co-ordination of the various functions of the business as managers examine the operations of their departments relative to other departments. **Communication**: the budgeting process requires that all levels of the organisation are informed of long range plans, providing and receiving feedback throughout the budgeting process.

Motivation: a budget, if it is realistic and prepared with the participation of managers, provides a standard of performance that managers will strive to achieve. However, if a budget is set by higher level managers and imposed on lower-level managers it may be resisted and cause dissatisfaction and demotivation.

Control: a budget assists managers in controlling the activities for which they are responsible by allowing them to compare actual performance with expected or budgeted performance. Any significant differences may then be investigated and inefficiencies highlighted for remedial action.

Performance evaluation: a manager's performance may be evaluated by reference to how well budgeted results are achieved. Budgets thus allow managers to gauge how well they are meeting targets that they have been involved in setting. (iii) Difference between fixed and flexible budgets

A fixed budget, once developed and agreed, is not changed or altered if actual activity differs from budgeted activity.

A flexible budget is prepared based on actual activity and shows what the budgeted costs and revenues would have been if the budget had been based on actual activity achieved. A flexible budget thus allows comparison of actual and budgeted costs and revenues based on the same activity level. It is much more useful than a fixed budget as it allows more meaningful variances to be calculated.

(i)Zero based budgeting (ZBB)

Zero based budgeting (ZBB) emerged in the late 1960s as a response to incremental budgeting. With ZBB, all budgets start at zero and activities/costs are only allowed if they are justified under investigation. All requests for resources must be presented and they are evaluated on the basis of cost-benefit – i.e. where is the value in the spend? ZBB is best suited to discretionary spending where there is no clearly defined input output relationship (e.g. marketing, research & development, training, etc.) or public sector organizations such as local councils.

Advantages of Zero-Base Budgeting

- 1. It identifies and eliminates wastage.
- 2. It ensures that the best possible methods of performing jobs are used and that ideas are generated.
- 3. It should result in more efficient allocation of resources.
- 4. It increases communication with the organization.
- 5. It involves participation of management and should therefore motivate them.
- 6. The documentation of decision packages provides management with deep coordinated knowledge of all the firm's activities.
- 7. It makes manager more aware of the costs of input and helps them to identify priorities.

Disadvantages of Zero-Base Budgeting

- 1. The costs of preparing a vast number of decision packages in a large firm is very high.
- 2. A large volume of additional paper work is created.
- 3. Managers feels threatened by it.
- 4. The ranking of decision packages and allocation of resources is subjective to a certain degree and can give rise to departmental conflict.
- 5. Despite increased participation, a large volume of information travels one way

Akeza Products Ltd (RWOX9 Product)

023 IcparApril20

(c)

A perpetual inventory record for the product RWOX9 under the FIFO

Dat	Receipts			Issues	Issues pril2023 IcparApril202			Balance 12023 Icpar April2		
2023 2023 2023 2023	Quantit y in kg	Unit Cost (FRW	Total	Quantit y in kg	Unit Cost (FRW	Total	Quantit y in kg	Unit Cost (FRW	Total arApril2 arApril2	
013	purapruz mar Anvil 2	(2) 10 pur	1.pru202. 1.pril202	l IcparApri LonarAnri	2)23 100 12023 Ion	ar April 202	3 000) 20	60.000	
Dec -22	cparApril2 cparApril2 cparApril2	023 Icpan 023 Icpan 023 Icpan	(pril202) (pril202) (pril202)	3 IcparApri 3 IcparApri 3 IcparApri	2023 Icp 2023 Icp 2023 Icp	arApril202 arApril202 arApril202	3 IcparApr 3 IcparApr 3 IcparApr	2023 Ict 2023 Ict 2023 Ict	arApril2 arApril2	
03- Dec -22	2,500	218 cpar. 23 Icpar.	45,00 0	icparApri IcparApri	2023 Icp 2023 Icp 2023 Icp	arApril202 arApril202 arApril202	3,000	203 Icp	60,000	
2023 1	cparApril2	(23 Icpar)	teril202	IcparApri	2023 Icp	arApril202	2,500	18	45,000	
2023 1	cparApril2	(23 Icpar.	april202.	3 IcparApri	2023 Icp	drApril202	5,500	12023 Icj	105,00	
2023 1	parApril2	(23 Icpar.	April202.	3 IcparApri	12023 Icp	arApril202	3 IcparApr	12023 Icj	a04pril2	
06- Dec -22	cparApril2 cparApril2 cparApril2	023 Icpar 023 Icpar 023 Icpar	(pril202. (pril202. (pril202	3,000	2 20 3 Icp 2023 Icp 2023 Icp	60,000	3 IcparApr 3 IcparApr 3 IcparApr	12023 Icj 12023 Icj 12023 Icj	arApril2 arApril2 arApril2	
2023 1	cparApril2	(23 Icpar	April202.	300 - Apri	2183 Icp	5,400	3 IcparApr	12023 Icj	arApril2	
2023 1	cparApril2	(23 Icpar.	pril202.	3,300	2023 Icp	65,400	2,200	18	39,600	
10- Dec	2,700	21	56,70 0	IcparApri IcparApri IcparApri IcparApri	2023 Icp 2023 Icp 2023 Icp 2023 Icp	crApril202 crApril202 crApril202 crApril202	2,200	18	39,600	
-22 2023 I	parApril2	23 Icpar	1 April202.	i IcparApri	2023 Icp	drApril202	2 700	2123 19	56 700	
2023 1	parApril2	123 Icpan	April202.	3 IcparApri	12023 Icp	dr <i>April20</i> 2	4.900	12023 Icj	96.300	
16- Dec 22	2,800	6 23 Iepan 623 Iepan 623 Iepan	april202 (pril202) (pril202)	2,200	18 2023 Icp 2023 Icp	39,600	3 loparApr 3 loparApr 3 loparApr	12023 Icq 12023 Icq 12023 Icq	arApril2 arApril2 arApril2	
-22	parApril2	23 Iepan	1. pril202.	600	21	12.600	3 IcparApr	12023 Icj	rarApril2	
2023 1	parApril2	423 Iepar	<i>pril202</i>	2,800	12023 Iep	52,200	2,100	21	44,100	
17- Dec -22	3,100	22 _{cpar}	68,20 0	leparApri leparApri leparApri	2023 Icp 2023 Icp	crApril202 crApril202 crApril202	2,100	21 _{23 Ict}	44,100	
2023		1 2 2 Tomas	1202012(02) (mmi12002	Tonar Ann	2023 20p	0 7 / 10 7 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	3,100	22	68,200	
2023 1	parApril2	(23 Icpar.	(pril202	3 IcparApri	2023 Icp	arApril202	5,200 Apr	12023 Icp	112,30 0	
19- Dec	2,800	21 _{1cpar} 23 Icpar	58,80 0	3 IcparApri 3 IcparApri 3 IcparApri	2023 Icp 2023 Icp 2023 Icp	arApril202 arApril202 arApril202	2,100	1 21 23 Ict 12023 Ict	44,100	
-22	par April 2	23 Icpar	(pril202	IcparApri	12023 Icp	ar.April20	3 100	22	68 200	
2023 1	cparApril2	123 Icpar	<u>april202</u>	1 IcparApri	12023 Icp	arApril20	2.800	21	58.800	
2023 2023 2023	cparApril2 cparApril2 cparApril2	23 Icpar. 23 Icpar. 23 Icpar	pril202. (pril202. (pril202)	1 IcparApri 1 IcparApri 1 IcparApri	2023 Icp 2023 Icp 2023 Icp	arApril202 arApril202 arApril202	8,000	64 3 I cj	171,10 0	

023 IcparApril **F2.1** IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 I **Page 16 of 25** IcparApril2 023 IcparApril2023 IcparApril2023

Dat	Receipts			Issues			Balance		
e 2023 2023 2023 2023	Quantit y in kg	Unit Cost (FRW	Total	Quantit y in kg	Unit Cost (FRW	Total rApril202 rApril202	Quantit y in kg	Unit Cost (FRW	Total
23-	2,250	23 Icnar	1 p ril202	2,100	21	44,100	3 IcparApr 3 IcparApr	12023 Icr	arApril2
Dec -22	cparApril2	23 Icpar	pril202	3 IcparApri 1 IcparApri	2023 Icp	rApril202	3 IcparApr	12023 Icp 12023 Icp	arApril2
2023 1	cparApril2	23 Icpar	oril202	150	223 Jen	3,300	3 IcparApr	12023 Icr	arApril
2023 1	cparApril2	23 Icpar.	April202	2,250	12023 Icp	47,400	2,950	1223 Icr	64,900
2023 1	cparApril2	23 Icpar	April202	3 IcparApri	12023 Icpi	rApril202	2,800	21	58,800
2023 I 2023 I	cparApril2 cparApril2	23 Icpar. 23 Icpar.	(pril202) (pril202	3 IcparApri 3 IcparApri	2023 Icpe 2023 Icpe	rApril202 rApril202	5,750 <i>pr</i>	12023 Icp 12023 Icp	123,70 0
25- Dec	2,750	22 cpar 23 Icpar	60,50 0	1cparApri 1cparApri 1cparApri	2023 Icpe 2023 Icpe 2023 Icpe	rApril202 rApril202 r April202	2,950	22 2023 Icp	64,900
2023	cparApril2	23 Icpar	pril202	1 IcparApri	12023 Icp	rApril202	2,800	21	58 800
2023 1	cparApril2	23 Icpar	pril202	1 IcparApri	2023 Icpl	rApril202	2,750	22	60,500
2023 1	cparAprilZ	23 Icpar	ipril202	3 IcparApri	12023 Icpl	rApril202	8,500	12023 Icp	184.20
	cparApril2	23 Icpar	April202	3 IcparApri	l2023 Icpe	arApril202	3 IcparApr	il2023 Icp	0
26- Dec -22	3,950 par April 2 par April 2	23 Icpar. 23 Icpar. 23 Icpar.	1 <u>p</u> ri1202 1pri1202 1pri1202	2,950	22 2023 Icpd 2023 Icpd	64,900	s IcparApr 3 IcparApr 3 IcparApr	12023 Icp 12023 Icp 12023 Icp	arApril2 arApril2 arApril2
2023 1	cparApril2	23 Icpar.	pril202	1,000	213 1000	21,000	3 IcparApr	12023 Icp	arApril2
2023 1	parapruz	.23 Icpar. 	1.pni/202.	3,950	12023 ICPI 12023 T	85,900	1,800	21	37,800
2023 1	lonar Anvill	123 Icpar. 122 Ionar	(pru202) (mmi1202)	i ToparApri i ToparAnzi	12023 Icpt 12023 Ion	ar April 202	2,750	22	60,500
2023	Innar April 2	23 Icnar	1nri1202	IcnarAnri	12023 Icn	rAnril20	4,550	12023 Icr	98,300
27- Dec	3,200,112	23 _{Icpar} 23 Icpar	73,60 0	3 IcparApri 3 IcparApri	2023 Icpo 2023 Icpo	rApril202 rApril202	1,800 Apr 3 IcparApr	2123 Icp	37,800
744	cparApril2	23 Icpar	1.pril 202	LeparApri	12023 Icp	<u>17.4 pril 201</u>	2,750	22	60.500
2023 1	i <u>nar April 2</u> I mar April 2	23 ICDAR 133 Ionar	Invil202	Topar April	12023 ICD/ 12023 Ten	<u>2rApril202</u> 	3.200	23	73.600
2023 1	cparApril2	23 Icpar	nril202	IcnarApri	2023 Icp	rApril202	7,750	12023 Icr	171,90
2023 1	cparApril2	23 Icpar	pril202	IcparApri	12023 Icp	rApril202	3 IcparApr	12023 Icr	0400012
28-	2,600	23 Icpar.	pril202	1,800	2 21 3 Icpl	37,800	3 IcparApr	il2023 Icp	arApril2
Dec -22	CparApril2	23 Icpar 23 Icpar	(pril202 (pril202	3 IcparApri 3 IcparApri	l2023 Icpo l2023 Icpo	rApril202 rApril202	3 IcparApr 3 IcparApr	12023 Icp 12023 Icp	arApril2 arApril2
2023 1	cparApril2	23 Icpar	1pril202	800	223 100	17,600	3 IcparApr	12023 Ict	ar April 2
2023 1	cparApril2	23 Icpar.	April202	2,600	12023 Icpd	55,400	1,950	22 3 101	42,900
2023 1	cparApril2	25 Icpar.	1_pril202	1 IcparApri	12023 Icpe	rApril202	3,200	23	/3,600
	pur April 2 Innar April 2	23 Icpar 23 Icpar	1pril202.	1 IcparApril 1 IcparApri	12023 Icpl	rApril202	5,150	12023 ICP 12023 Icr	116,50
30- Dec	3,250 ¹²	-24 cpar. 23 Icpar.	78,00 0	IcparApri IcparApri	2023 Icpe 2023 Icpe	rApril202 rApril202	1,950	22 ^{3 1} 0 2023 Icp	42,900
-22	cparApril2	23 Icpar.	pril202	1 IcparApri	12023 Icp	rApril202	B IcparApr	12023 Icp	72 COO
2023 1	pur April 2	125 10pan 123 Ionar	nril202	I IcparApri I IcparApri	12025 ICPI 17073 Icm	rApril202	3,200	23	78,000
	Parapril2	as reput	P1 11202	- isput April	a casa r		3,230	24	/8,000

023 IcparApril **F2.1**IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 I **Page 17 of 25** IcparApril2 023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2 023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2 023 IcparApril2023 IcparApri

Dat	Receipts			Issues			Balance Balance		
e 12023 12023 12023	Quantit y in kg	Unit Cost (FRW	Total pril202 pril202	Quantit y in kg	Unit Cost (FRW	r Total rApril202 rApril202	Quantit y in kg	Unit Cost (FRW	Total 20 arApril20 arApril20
2023 2023 2023	parApril2 parApril2 parApril2	Stepar 23 Iepar 23 Iepar	[pril202. [pril202. [pril202.	IcparApri IcparApri IcparApri	2) 23 Icpi 2023 Icpi 2023 Icpi	rApril202 rApril202 rApril202	8,400),23.1cp 2023.1cp 2023.1cp	194,50 0
31- Dec -22	6,950	23 Icpar. 23 Icpar. 23 Icpar.	(pril202) (pril202) (pril202)	1,950	223 Icpe 2023 Icpe	42,900	3 IcparApr 3 IcparApr 3 IcparApr	12023 Icp 12023 Icp 12023 Icp	arApril20 arApril20 arApril20
12023	IcnarApril2	23 Icnar	1pril202	3,200	233 700	73,600	3 IcparApr	12023 Icr	arApril20
12023 1	cparApril2	23 Icpar	pril202	1,800	2243 Icp	43,200	3 IcparApr	12023 Icr	arApril20
12023 I 12023 I	leparApril2 leparApril2	23 Icpar. 23 Icpar.	[pril202: (pril202:	6,950 pri	2023 Icpe 2023 Icpe	159,70 0	1,450 Apr	2 4 3 Icp 2023 Icp	34,800 ar April 20

023 IcparApril OUESTION FIVE IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023

V V			T T	· L	

	Marking guide	Marks
a 23 023 023 023	Computation of the fixed production costs absorbed by CASSAVA flour in the first quarter 2021 if absorption costing is used (0.5 marks allocated to the computation of the OAR, 0.5 marks is allocated to the computation of the fixed production overhead absorbed and 2 marks are allocated to the computation of the Over absorption of overhead)	a ⁷ April2 arApril2 arApril2 arApril2
b 023	Computation of the profit using absorption costing (s 0.5 marks are allocated to each of the figures above table under the last two columns maximum 6.5 marks)	6.5 TrApril2 TrApril2
c)2:)2:	Computation of the profit using marginal costing (0.5marks are allocated to each of the figures in the answer table under the last two columns maximum 5.5 marks)	5.5 arApril2 arApril2
d	Explanation about the difference (2 marks are allocated to the comments and 3 marks are allocated to the computation of the marginal costing profit)	1 5 1pril2 1rApril2
123	Total pril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 Icp	20

023 IcparApril Model Answers)23 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023

a) The fixed production costs absorbed by CASSAVA FLOOR in the first quarter (with absorption costing) are:

Budgeted fxed products costs	FRW 1,600
Budgeted output(Normal level of activity)	= 800 Kgs
Absorption rate - FPW 2 per kg produced	

Absorption rate = FRW 2 per kg produced. During the quarter, the fixed production overhead absorbed was 220 kgs x FRW 2 = FRW 440.

023 IcparApril F2.1 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 I Page 18 of 25 IcparApril2

The under/over recovery of overheads for the quarter would be,

	FRW 12023 Jonar FRW	
Actual fixed production overhead (1/4 of FRW 1,600	400	
Absorbed fixed production overhead (220*FRW 2)	arApr (2023 IcparAv 440) 3 Ic	
Over absorption of overhead	arApril2023 JeparAn-40 23 Je	

023 IcparApril b) Profit for the first quarter, absorption costing, arApril 2023 IcparApril 2023 IcparApril 2023 IcparApril 2023 IcparApril 2023

023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril.	2023 Icpar/FRW 23	Icpar/FRW 3 Icp	
Sales (160 x FRW20)	2023 IcparApril2023	3,200	
Production costs IcparApril2023 IcparApril2023 IcparApril	2023 IcparApril2023	IcparApril2023 Icp	
Variable (220 x FRW 8)	1,760	IcparApril2023 Icp	
Fixed (absorbed overhead (220 x FRW2)	440	1cparApril2023 Icp	
Total (220 x FRW 10)	2,200	IcparApril2023 Icp	
Production cost of sales	(600)	IcpurApril2023 Icp	
Adjustment for over-absorbed overhead	1,600	IcparApril2023 Ici	
Total production costs	2023 [cpar_(40)] 23	IcparApril2023 Ici	
Gross profit 12023 IcparApril2023 IcparApril2023 IcparApril	2023 IcparApril2023	<u>1,560</u>	
Less: sales and distribution costs parApril2023 IcparApril	2023 IcparApril2023	1,640 3 Ici	
023 Icpa Variable (160 x FRW.4) CoparApril2023 IcparApril	2023 IcparAp640 23	IcparApril2023 Icp	
Fixed (¼ of FRW.2,400)	2023 IcparA <u>r</u> 600 23	IcparApril2023 Icp	
2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril	2023 IcparApril2023	1,240 3 1c)	
Net profit ^{oril2023} IcparApril2023 IcparApril2023 IcparApril.	2023 IcparApril2023	IcparA 400 3 Icp	

c) Profit for the first quarter, marginal costing

	arApril ² FRW. ^{arApril20}	FRW. April20
Sales par April 2023 Icpar April 2023 Icpar April 2023 Icp	arApril2023 IcparApril20	3,200
Variable production costs	1,760	3 IcparApril20
Less closing stocks (60 x FRW.8)	480	13 IcparApril20
Variable production cost of sales	1,280	2 IcparApril20
Variable sales and distribution costs	640	13 reparaprazo 12 reparaprazo
Total variable costs of sales	ar April 2023 Topar April 20.	<u>1,920</u>
Net contribution Jonar April 2023 Jonar April 2023 Jon	arApril2023 IcparApril20	1,280
Less: parApril2023 IcparApril2023 IcparApril2023 Icp	arApril2023 IcparApril20	13 IcparApril20
Fixed production costs incurred parApril2023 Tep	arApril2023 IcparAp400)	3 IcparApril20
Fixed sales and distribution costs ar April 2023 Top	arApril2023 IcparAp <mark>600</mark>	23 IcparApril20
023 IcparApril2023 IcparApril2023 IcparApril2023 Icp	arApril2023 IcparApril20	3 Icpar/ <u>1,000</u>
Net profit vil2023 IcparApril2023 IcparApril2023 Icp	arApril2023 IcparApril20	3 Icpar 4 280

d) The difference in profit is subjected to the different valuations of closing stock. In absorption costing the 60 kgs of closing stock include absorbed fixed overheads of FRW 120 (60 x FRW 2), which are therefore costs carried over to the next quarter and not charged against the profit of the current quarter. In marginal costing, all fixed costs incurred in the period are charged against the profit.

12073 IcparApril2

Absorption costing profit Fixed production costs carried forward in stock values Marginal costing profit

023 IcparApril2023 Ic

400

120

<u>280</u>

023 IcparApril QUESTION SIX 3 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2

a	Marking Guide	Marks
)23 023	Differences between management accounting and cost accounting (Each point of comparison is worth 0.25 Marks (0.25*7=3.5Marks) and 0.5 Mark for presentation	arApril2 arApril2
b	Preparation of the Reconciliation of Financial and Accounting Profits as at 31	8
)23)23)23	March 2020 (1 marks are allocated to each of the figures above table under the last two columns except data for profit as per financial books maximum 8 Marks)	
c	i) Definition of the Integrated accounting system	arApril2
23	ii) Definition of the Interlocking accounting system	arApril2
123 123	iii) Two advantages of integrated accounting Each advantage worth 2 marks	arApril2 arApril2
23	Total pril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 Ic	arApri12
d 3 123 123	Mentioning the qualitative factors to be considered before finalizing the umbrella manufacturing decision 1 mark is allocated to one qualitative factor provided by the candidate (1*4=4)	oarApril <mark>2</mark> oarApril2 oarApril2
23	Total1pril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 Ic	arApr20
23	IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 Ic	Marks

023 IcparApril2<u>023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril20</u>23 IcparApril2 023 IcparApril **F2.1**IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 I Page 20 of 25 IcparApril2 023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2 023 IcparApril2023 IcparApri

Model Answers

a) **Management Accounting Cost Accounting** Cost accounting is part Management accounting is the of application of accounting techniques management accounting which and financial management to provide establishes budgets, standard costs information that help management in and actual costs, process, product formulation of policies analysis of variances, the and costs and strategies, planning and controlling profitability or the social use of funds. the activities, decision making and optimization of use Cost accounting is used to measure Managerial accountants calculate and and identify those costs, in addition to allocate overhead charges to assess assigning overhead to each type of the full expense related to the product created by the company. production of a good of resources **b**) Reconciliation of Financial and Accounting March 2020: FRW FRW'000 Profit as per the financial books: 11.287.000 Add: Depreciation difference Less: Items included in Financial Books but not Costing in Books: Profit on sale of assets: (850,000)Dividend received (2,635,000)Less: Stock: Opening Stock (3,250,000)(2,010,000)**Closing Stocks** (532,000)(9,277,000)Profit as per cost accounting books 2,704,000 c) i) Integrated Accounting System Are a system in which a set of accounting records which provides

ii) Interlocking Accounting System

using a common input of data for all accounting pur

Are systems in which the cost accounts are distinct from the financial account: both sets are kept in agreement or are readily reconcilable.

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iii) Advantages of Integrated Accounting Systems

The main advantages of Integrated Accounting are as follows:

- Savings in accounting costs can be made.
- Since there is one set of accounts, thus there is one figure of profit. Hence the question of reconciliation of costing profit and financial profit does not arise.
- Better use can be made of accounting information, since all the facts are known. Together with this is the better co-operation which should ensue from the cost and financial accounting staff also being integrated".
- Single data capture greatly simplifies automated linkages between the process control systems, accounting systems and the overall management information systems.
- When introducing computerised systems, it is not sensible to use two separate ledgers, with all the attendant control problems. Computer systems are best at handling large volumes of data and exercising overall control, but problems often arise when control level interfaces are necessary such as when two or more ledgers are maintained. To overcome these problems the purchase and sales ledger areas of a computerised accounting system are usually kept apart from the nominal ledger and are physically defined as separate modules by the software supplier

d) On quantitative basis, Twikirwa Ltd should produce the umbrellas for Ihamagarire Ltd as it would generate the additional income. (5800- 5,347) *1500

However, the decision should not be finalized before considering the following qualitative factors:

- Any possibility that the existing customers may be affected by the decision
- Any effect on staff would morale be reduced if there was less idle time
- The acceptance of this job may lead to more work for the company
- Whether the umbrellas production for the local golf club enhance the reputation of Twikirwa Ltd

QUESTION SEVEN

02	Marking Guide nor April 2023 Jonar April 2023 Jonar April 2023 Jonar April 2023	cnar Anril 20
a) 02:	(i)Computation of the contribution per for the production of "Nziza (2 Marks are allocated to the total variable cost and 2 marks are allocated to the correct computation of the contribution per unit)	cparApril ⁴ 0 cparApril20
02: 02: 02: 02:	(ii) Advice on whether Nyamata Processors Limited make or buy the specialized component (1 mark is allocated where the cost to buy was indicated,1 mark is allocated where the cost of making was indicated and 2 marks are allocated to the correct decision made)	cparApril20 cparApril20 cparApril20
02: 02: 02: 02: 02:	(iii) Advice on whether Nyamata Processors Limited on whether they should accept or not the special offer to make the variant (0.5 mark is allocated to the computation of the special component cost, 0.5 mark is allocated to the computation of the contribution and 1 mark is allocated to the advice made)	cparApril20. cparApril20. cparApril20. cparApril20. cparApril20.
02:	Maximum	10
b	(i)Identification and computation of the limiting factor for Byuma Ltd (1	cparApril 20

Mark for calculation of direct labour hour for machining hour 1 mark for calculation of direct lahour hour for Assembly, 1 mark for comment on machine department and 1 mark for comment on Assembly) (ii) Advice on which product(s) should be sourced by NYAMATA parApril4 Processors Limited from the external supplier and the relevant quantities (1 mark for using correct limiting factor 0.5 marks for contribution, 0.5 mark for contribution per limiting factor 1 marks for deciding quantity to produce for each product and and 1 mark for comment on external purchase) (iii) Computation of the profits for the period commencing 1 July 2020 and parApril2 ending 30th June 2021 (0.5 marks on total sales, 1 Marks for Total cost and 0.5 Marks for profit) Maximum 10 20 Total Marks

Model Answers²³ IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023

12023 IcparApril2023 IcparApril2023				
12)23 IcparApril2023 IcparApril2023				
(i) 3 Jonar April 2023 Jonar April 2023	FRW	FRW		
Selling price		7,200		
Variable costs				
Material (1 x 2,800)	2,800			
Labour (2 x 360)	720	3,520		
Contribution per unit ar April 2023		1 <u>3,680</u> m1202		
(ii)Make or buy 23 Japar April 2023				
Buying from outside		IcparApril36,0	00 par April 2023	
12023 IcparApril2023 IcparApril2023	IcparApr FRW	IcparApril202.		
Making Labour (12 x 360)	IcparApril 4,32	0cparApril202.		
12023 IcparApri Material #April2023	IcparApri14,40	0cparApril202.		
	IcparApril2023	Icpar Apr 18 72	Contraction Contraction Contraction	

The company should consider making it as the additional cost is FRW 18,720 which is lower than the purchase price of FRW 36,000.

Note: Fixed costs are not considered in making the decision since they will have to be incurred whether they make or buy.

Value of offer		648,000
Variable cost	136,800	rApril2023 IcparApril20
Material April2023 IcparApril2023 IcparApril20.	3 Icpar April 207,200	rApril2023 IcparApril20
Labour (20 x 360) CoparApril2023 JoparApril20	3 IcparApril2 <u>18,720</u>	rApril2023 IcparApril20
Special component com/april2023 [cparApril20]	3 IcparApril2023 Icpa	rApril2023 Icp <u>162,720</u>
Contribution 2023 Icpar April 2023 Icpar April 20.	3 IcparApril2023 Icpa	485,280

Should accept since the contribution will increase by FRW 485,280.

023 IcparApril F2.1 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 I Page 23 of 25 IcparApril2

b) 123 IcparApril (1) 123 IcparApril (1)Identify and compute the limiting factor for Byuma Ltd (1) IcparApril (2023 IcparApril (202

If Byuma Ltd would produce according to maximum demand would there be a limiting factor?

2023 JeparApril2023 JeparApril2023 JeparApril2023 JeparApril2023 JeparApril2023 JeparApril2023 JeparA

Details:rApril2023 IcparApril2023 Ic	9 X 2023 Icj ril2023 Icj	c T April20. arApril20.	PicparA 3 IcparA	Totals	Available hours
Maximum demand (units) 2023 JoparA	3,000	2,500	5,000	pril2023 .	cparApril20
Direct labour: machine hour per unit (hrs)	ril2023 61 ril2023 Icj	arApril24). arApril20.	3 Icpa 7 1 13 IcparA	oril2023 oril2023	cparApril20. cparApril20.
Total machine hours needed (hrs)	18,000	10,000	35,000	63,000	50,000

The maximum capacity of machine hours is 50,000 hours but if the company was to produce to meet maximum demand it would need 63,000 hours. Machine hours is therefore a limiting factor as its constraints the organisation. It prevents expansion or unlimited profits. It is limiting by 63,000 – 50,000 = 13,000 hours.

What about assembling hours?

Details April 2023 Icpar April 2023 Icpar April	20 X coar Ap	ril2 T 23 Icpar	P.2023 I	Totals
Maximum demand (units)	20 3,000 Ap	2,500	5,000	cparApril20
Direct labour: machine hour per unit (hrs)	202.6IcparAp	ril 26.5 Icpar/	1pr712023 I	cparApril20
Total machine hours needed (hrs)	18,000	16,250	35,000	69,250

Comment: Total hours needed are **69,250** but maximum capacity is 75,000 hours therefore assembling hours are not a limiting factor.

(ii)Determine which product(s) should be sourced from external supplier and the relevant quantities

Based on the above information, what is the most appropriate mix to produce under the following assumption: -

4 If machine hours are limited to 50,000 hours in a period.

Whenever products have a positive contribution and there are no limiting factors they should be produced. However, in our case a limiting factor exists hence the products should be ranked in order of contribution per limiting factor and the most profitable product mix established.

Details April2023 IcparApril2023 Icp	ar X ril2023 IcparA	lpri $2\mathbf{\hat{T}}^{23}$ IcparApril	$20\mathbf{\tilde{P}}$ IcparApril20.
Selling price per unit (FRW)	2,480	1,900	2,800
Less: Total variable costs (FRW)	2,020	1,430	2,340
Contribution per unit (FRW)	460	470	460
Machine hours per unit (FRW)	6 12023 Iopart	1 mil 4023 Jepar April	73 Icnar April 20
Contribution/machine hours (FRW)	<u>460</u> = 76.67	<u>470</u> = 117.5	460 = 65.71
	6-12023 Icpar	pri 2023 IcparApril	2023 IcparApril20
Ranking April 2023 Icpar April 2023 Icp	ar2pril2023 Icpar	pril2023 IcparApril	2023 IcparApril20
		A A A	

023 IcparApril2Therefore; pril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 Ic

023 IcparApril2023 IcrProduce;023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril

2500 units of T using (2,500 x 4) 10,000 hrs 3000 units of X using (3,000 x 6) 18,000 hrs

023 IcparApril F2.1 [cparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023] Page 24 of 25

3143 units of P using (3143 x 7)

22,000 hrs 50,000 hours

Comment: The company should source 5000 - 3143 = 1857 units from the external supplier which will cost him 2,500 per unit.

(iii)Based on your recommendations in (ii) above, determine the profits for the period commencing 1 July 2020 and ending 30th June 2021

From and Loss statement for the year ending 50 June 2021				
(Detail ar April 2023 Icpar April 2023 Icpar	x12023 Icp	ar April 2023	ParApril202	3 Total April 20
Quantity Produced and Sold	April2 (3,000)	2,500	cpar / 3,143	3 IcparApril20
Quantity bought and Sold	April2023 Icp	arApril2023	1,857	3 IcparApril20
Total Quantity Sold	3,000	2,500	5,000	3 IcparApril20
Selling Price	2,480	1,900	2,800	2 Ionar April20 2 Ionar April20
Sales narApril2023 IcparApril2023 Icpar	7,440,000	4,750,000	14,000,000	26,190,000
Less variable cost IcparApril2023 Icpan	April2023 Icp	arApril2023	IcparApril202	3 IcparApril20
Variable cost per unit and pul2023 Icpan	2,020	1,430	2,340	3 IcparApril20
Total Variable cost CharApril 2023 Icpan	6,060,000	3,575,000	11,997,280	21,632,280
Net profit for the year ending 30 th June 2021	April2023 Icp April2023 Icp	arApril2023 arApril2023	leparApril202 leparApril202	4,557,720

Profit and Loss statement for the year ending 30th June 2021

END OF MARKING GUIDE AND MODEL ANSWER

1023 IcparApril2023 Icp