

CERTIFIED PUBLIC ACCOUNTANT ADVANCED LEVEL 2 EXAMINATIONS

A2.2: STRATEGIC PERFORMANCE MANAGEMENT

DATE: THURSDAY 24, AUGUST 2023

MARKING GUIDE AND MODEL ANSWERS

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Model Answers

Karekezi Holdings Ltd

$oldsymbol{ ext{Particulars}}$ 2023 ICPARAUGUST 20 $oldsymbol{ ext{Amounts}}$ in $oldsymbol{ ext{FRW}}$ CPARAUGUST2023 ICPARAUGUST2023 ICPARA					RAUGUST2023 I	
3 ICPARAUGUST2023 ICPARAUGUST 3 ICPARAUGUST2023 ICPARAUGUST	Year 1	Year 2	Year 3	Year 4	Year 5	Totals
Marketing costs CPARAUGUST	85,000	40,000	120,000	130,000	150,000	525,000
Research and development costs	2,500,00 0	300,000 PA UST 2023 ICPA UST 2023 ICPA	240,000 AUGUST202	200,000 3 ICPARAUGU 3 ICPARAUGU	S <u>T</u> 2023 ICPAI ST2023 ICPAI ST2023 ICPAI	3,240,000 AUGUST2023
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Cost per unit = $(46,300,000)$	797,000)	GUST2023 ICPA GUST2023 ICPA	RAUGUST202 RAUGUST202	3 ICPARAUGU 3 ICPARAUGU	IST2023 ICPAI IST2023 ICPAI	A4777 ST2023 I
Profit per wheel barrow	2023 ICPARAU	GUST2023 ICPA	RAUGUST202	3 ICPARAUGU	ST2023 ICPAI	RAUGUST2023 I
Estimated selling price GUST	2023 ICPARAUG	UST2023 ICPA	RAUGUST202	3 ICPARAUGU	ST2023 ICPAI	4 600 ST2023 I
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Profit = $(600 - 477)$	2023 ICPARAUC	GUST2023 ICPA	RAUGUST202	3 ICPARAUGU	IST2023 ICPAI	A123 ST2023 I

iii) Given that each wheelbarrow makes a profit of FRW 123 then it is worthwhile to consider life cycle costing while determining the selling price of the wheelbarrows though the profit appears really marginal.

b) The two approaches to the management of ethics within an organisation as suggested by lynne Paine. 2023 ICPARAUGUST 2023 I

A compliance-based approach: This is an approach purely designed to ensure that all KHL staff act within the letter of the law. The drawback to this approach is that by just complying with the law, cannot be an adequate means to which a full range of day-to-day organisational ethical issues could be addressed. KHL will need to abide by the law though this might not stop officers from being unethical.

An integrity-based approach: This approach combines the letter of the law along with an emphasis on managerial responsibility to behave ethically. The benefit with this approach is that once it is integrated into KHL's day to day operations, it helps in mitigating ethical lapses. KHL will need to develop a code of conduct but complement it with managerial buy-in and responsibility.

c) ISIMBI Supermarket is considering re-engineering its processes; examine the features that would indicate a re-engineered process in reference to ISIMBI Supermarket.

BPR may be defined as the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance such as quality, cost, service and speed.

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ISIMBI supermarket would have to combine several jobs into one at each super market branch especially staff in charge of quality control and those in charge of recording deliveries should be the same person.

ISIMBI should come up with a logical framework through which each process has to be performed i.e., from requisition to order placing, then to inspection upon arrival and receiving and registering deliveries into inventory etc

ISIMBI should not waste a lot of time cleaning the supermarket. In as much as cleaning is important, it should be noted that under BPR work is performed where it makes most sense. Besides, cleaning can either be done early morning or at night before concerned staff depart.

ISIMBI may also have to consider establishing a system of quality control such that poor quality products do not have to go beyond the quality control check point to avoid humiliation by customers.

It will be important that going forward, the Operations Manager takes the lead in managing the supermarkets and reports back to the CEO as opposed to both of them running the supermarkets without a clear chain of command.

Centralisation of the supermarket management may also offer other benefits such as economies of scale that would be very important while dealing with suppliers including negotiation of supplier contracts.

Processes at ISIMBI should be designed to achieve a desired outcome rather than focusing on existing tasks. For example, Point of Sale at the counters should be increased to reduce on longer queues or implement other payment modes such that customers may be able to enjoy flexibility of choice.

d) Merely developing a code is never considered sufficient: discuss the impact of developing and implementing a code of conduct at KHL Ltd.

A code of conduct contains a series of statements setting out company's values including explaining how it responds and addresses various stakeholder issues.

Senior management commitment — with a code at KHL, the commitment of the senior management team shall be enhanced and with this, the code shall help management to persuade the staff that expectations have since changed.

Behavioural change—Better still, staff will also be facilitated to understand that it is in the KHL's interest to change behaviour, by also committing to the same ideals. AUGUST2023 ICPARAUGUST2023 ICPARAUG

Behaviour discouragement – Measures that conflict with the previous behaviour at KHL just before the code was introduced, shall henceforth be discouraged.

Detailed statement – Apart from the general code of conduct, a more detailed statements (codes of practice) will need to be developed setting out formal procedures that must be followed.

Buy-in – Like any other organisation's new policy, the code of conduct may not be perceived the same way by all the staff as it may be perceived to have a limitation either to their earnings or job freedom.

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e) Five stages of a product life cycle

The product life cycle – This refers to a process through which a product undergoes from the time it is launched until it dies out. The process is made up of five stages:

Introduction stage – This is a stage where a product is characterized with no profit as a result of being launched. At this level, competition is either non-existent or limited though with high growth levels. In KHL Ltd the introduction would be the first year were it is equally indicated that KHL would be incurring losses as in that stage, sales are very limited yet some costs would have been already incurred in form of research and development costs among others.

Growth stage – At this level, profits start to emerge to cover a bit of expenses incurred at the introductory level, attributed to the products being accepted at the market in bigger numbers. Year two would be the growth stage at KHL Ltd as profits will have emerged with possibilities of increasing the market share.

Maturity stage - At this level, there is stiff market competition with various players coming up with diverse marketing strategies including advertising, promotional campaigns that attract the use and rewarding of loyalties. As the third year is characterised with more players entering into the market, it is an indication of product maturity and therefore KHL Ltd will need to devise means of fighting the competition.

Saturation stage – At this level, sales growth appears to be in decline which leads to a lower profit per unit as more competitors join the market. With sales declining rapidly in the fourth year, the wheel barrows shall have reached the saturation stage, a sign that competitors will be owning a bigger portion of the market.

Decline stage – This is the last level of the product life cycle characterized with a slow but accelerated decline in sales and profits. For some players this is the time that they may have to start thinking about product withdrawal. If KHL Ltd is considering withdrawing out of the market, it's a sign that wheel barrows will have reached the decline stage. After all, if the wheel barrows had been estimated to have a life cycle of five years; it would be high time KHL Ltd considered discontinuing the wheel barrow product and concentrate on the super market business.

f) What are some of the implications of life cycle costing on pricing, performance management and decision making. AUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023

Since non production costs are attributed to individual products over the wheel barrows life cycle this may result into:

Reporting - the total of these costs for each wheel barrow are able to be reported and revenues to be generated for the future and equally compared instantly. 2023 ICPARAUGUST 2023 ICPARAUGUST

Enhanced visibility – The visibility of wheel barrow costs that have been accustomed to life cycle costing increases at KHL Ltd to facilitate decision making. For example, the FRW 150,000 in year 5 as a marketing cost may be ignored since the product shall be at a decline stage, almost at a point of withdrawal and therefore management may decide to save that expense.

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Profitability understood — Each wheel barrow profitability can be better understood by attributing all costs to wheel barrows and a decision made in case of unfavourable circumstances.

Accurate information – KHL Ltd will be able to access accurate information fundamental for its future growth as the information and the decision is made early enough.

Reduced product cost – being able to plan, design and develop a product at such an early stage improves an organisation's cost management process, a move that contributes to cost reduction thereby providing an opportunity for the organisation to effectively compete in the market.

Additionally;

Under pricing, As Life Cycle Costing (LCC) considers all costs of a products from its introductory to its decline stage, there would be much probability of considering all costs over its life. As a result, this would help to know the accurate total costs of a products, hence helps in setting up its related selling price. This will therefore avoid under/over pricing of this product.

Under performance management, after knowing or ascertaining product's total costs and price, KHL will identify profitable and loss-making product, this will help to measure the performance of its product over its life.

Under Decision making, As LCC helps to know total costs, price and product performance, this will help KHL to decide on the products to be dropped, continued as per its performance and contribution as well.

g) Discuss five advantages and five disadvantages of deploying an ABC methodology at KHL Ltd ST2023 ICPARAUGUST2023 ICPARAUGUS

Advantages of ABC at KHL Ltd

ABC is a costing technique that involves the identification of the factors which cause the costs of an organisation's main activities to change based on the usage levels.

Better basis for cost apportionment by identifying the real nature of cost behaviour which will help KHL Ltd in reducing costs and identifying activities which do not add value to the product as emphasised by the Chief Finance Officer.

Overheads will be better traced at KHL Ltd to the wheelbarrows which increases a better understanding of the overhead costs and cost drivers.

A more realistic and accurate product costs shall be realised at KHL Ltd thereby leading to a more accurate pricing decision. This is supported by accuracy and reliability in the wheelbarrow cost determination by focusing on cause-and-effect relationship in the cost incurrence.

ABC will influence KHL Ltd's managers to consider the drivers of cost within their businesses which greatly improves the manager's decision making as they can use more reliable product cost data.

ABC will provide a useful means of getting financial and non-financial data by tracing costs to areas of managerial responsibility, processes, customers, departments besides the product costs.

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ABC will bring attention to cost behaviour and also help in the reduction of costs by comparing the resources required under ABC with the resources that are currently provided with life cycle costing and other costing methods.

ii) Disadvantages of ABC at KHL Ltd

There are difficulties that emerge during the implementation of the ABC system such as picking cost drivers and varying cost driver rates. In order to implement ABC at KHL Ltd, will require identification of all cost drivers and this appears challenging.

Disadvantage to KHL Ltd: ABC has different levels of utility for different organisations such as large manufacturing firms which can use it more usefully than the size of KHL Ltd. For example, KHL Ltd may be better off using life cycle costing as opposed to ABC.

A full ABC system having several cost pools and cost drivers is more complex and more expensive to operate than traditional product costing systems. KHL Ltd might not find it worthwhile therefore.

Technology level: The level of technology and manufacturing environment prevailing in different firms also affect the application of ABC. It appears the technology at KHL Ltd might not be favoured by ABC.

Time: The ABC system is very time consuming as it requires management to estimate costs of activity pools and to identify and measure cost drivers to serve as cost allocation bases which involves so many calculations to determine costs of wheelbarrows which KHL Ltd appears not to have and ready for.

Fashion based: Some organisations may just decide to deploy ABC because it is fashionable not because KHL Ltd really needs it to make informed product costing decisions. In such cases therefore, it may be better to use absorption costing or life cycle costing which is cheaper and more cost effective as opposed to sticking to ABC.

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3 ICE	PARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST202	3 ICPARAUGUST2023 ICPARAU 3 ICPARAUGUST2023 ICPARAU 3 ICPARAUGUST2023 ICPARAU	JGUST2023
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Model Answers

(a) Stages through which HDT Co Ltd would go through while performing the scenario planning UST2023 ICPARAUGUST2023 ICPARAUGUS

Nowadays, the complexity of the external environment makes it difficult for organizations to predict the future. However, to help them plan and assess potential opportunities and threats, firms can develop scenarios based on the key influences and change drivers in the environment. Constructing plausible views of how the business environment of an organization might develop in the future, based on sets of key drivers for change.

Scenarios are not forecasts and predictions, but are plausible views of possible future conditions. The aim of scenario planning is to learn rather than predict the future, so organizations are often advised to produce multiple scenarios, to maximize the learning and contingency planning if necessary. Scenarios can be developed at a macro-environmental level (i.e relating to changes in PESTEL factors) or an industry level (ie relating to Porter's five forces).

The following are the stages through which HDT Co Ltd would go while performing the 123 ICPARAUGUST 2023 ICP

- 1. HDT Co Ltd would identify the scope including the timeframe to be involved, product line to be considered either telephone or computer, and who are the major stakeholders to be involved,
- 2. HDT Co Ltd would identify the key trends and areas of uncertainty based for example on Political, Economic, Social, Technological and Legal factors,
- 3. HDT Co Ltd would then construct the initial scenarios based on the key areas of uncertainty identified in stage two above, parallel stage two above, parallel stages are as a construct the initial scenarios based on the key areas of uncertainty
- 4. HDT Co Ltd would then check the scenario for consistency and plausibility,
- 5. HTD Co Ltd would expand the initial scenarios into full descriptions as if the scenario was actually occurring in order for management to assess the implications each scenario could have on the organization,
- 6. Develop quantitative models of the effect of different scenarios on the organization's activities and profitability or cash flow 12023 ic paraugust 2023 ic paraugust 2023
- 7. Develop strategies or courses of action which could be adopted in different scenarios if they actually happen AAUGUST2023 ICPARAUGUST2023 I

(b) The incremental revenue or losses by discontinuing the Tables product line follows:

Details GUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAU Details GUST2023 ICPARAUGUST2023 ICPA	GUST2023 ICPARAUGUST2023 ICPARAUQUST2023 IC GUST2023 ICPARAUGUST2023 ICPARAU AMOUNT
23 ICPARAUGUST 2023 ICPARAUGUST 2023 ICPARAUGUST 2023 ICPARAU 23 ICPARAUGUST 2023 ICPARAUGUST 2023 ICPARAUGUST 2023 ICPARAU	GUST2023 ICPARAUGUST2023 ICPA (FRW 1000)
Revenues (FRW 125,000*4,000 Telephones) PARAL	GUST2023 ICPARAUGUST2023 ICPARA (500,000) G
Variable costs (FRWA75,000*4,000 telephones)	GUST2023 ICPARAUGUST2023 ICPARAU $300,\!000$ IC
Depreciation on equipment 2023 ICPARAUGUST2023	GUST2023 ICPARAUGUST2023 ICPARAUGUST2023 IC GUST2023 ICPARAUGUST2023 ICPARAUGUST2029 IC
Marketing and distribution costs PARAUGUST2023 ICPARAU	GUST2023 ICPARAUGUST2023 ICPARAUGU 70 ,000 (
General administration costs 023 ICPARAUGUST 2023 ICPARAU	GUST2023 ICPARAUGUST2023 ICPARAUGUST202 $oldsymbol{0}$ (
Corporate office costsugust2023 icparaugust2023 icparaugust202	GUST2023 ICPARAUGUST2023 ICPARAUGUST2023 IC 0 0
Total costs 2023 CPARAUGUST 2023 CPARA	GUST 2023 ICPARAUGUST 2023 ICPARAUG 70,000 C GUST 2023 ICPARAUGUST 2023 ICPARAUG 70,000 C
Operating income (loss) ST2023 ICPARAUGUST2023 ICPARAU	GUST2023 ICPARAUGUST2023 ICPARA (130,000) C

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By discontinuing the telephone product line, it will result in revenue losses of FRW 500,000,000 and cost savings of FRW 370,000,000. Hence, High-Definition Technology company (HDT Co) Ltd.'s operating income will be FRW 130,000,000 lower if it discontinues the telephone line.

Note that, by discontinuing the telephone product line, HDT Co Ltd will save none of the depreciation on equipment, general administration costs, and corporate office costs, but it will save variable costs and all marketing and distribution costs on the telephone product line.

(c) HDT Co Ltd will generate incremental operating income of FRW128,000,000 from selling 4,000 additional telephones and, as a results, it should try to increase telephone sales. The calculations are as follow:

3 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAU Details Gust2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAU	GUST2023 ICPARAUGUST2023 ICPARAUGUST2023 I GUST2023 ICPARAUGUST2023 ICPARAU AMOUNT
3 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAU 3 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAU	GUST2023 ICPARAUGUST2023 ICPA (FRW. 000)
Revenues (FRW 125,000*4,000 Telephones)23 ICPARAL	GUST2023 ICPARAUGUST2023 ICPARAU(500,000)
Variable costs (FRW 75,000*4,000 telephones)	GUST2023 ICPARAUGUST2023 ICPARA(300,000)
Depreciation 23 on AR equipment CP written 72 off PA as depreciation 23 iCPARAUGUST 2023 iC	GUST2023 ICPARAUGUST2023 ICPARAUGUST2023 I GUST2023 ICPARAUGUST2023 ICPARAU (42,000) GUST2023 ICPARAUGUST2023 ICPARAUGUST2023 I
Marketing and distribution costs (FRW750,000*40 shipments)	GUST2023 ICPARAUGUST2023 ICPARAUGUST2023 I GUST2023 ICPARAUGUST2023 ICPARAU (30,000) GUST2023 ICPARAUGUST2023 ICPARAUGUST2023 I
General administration costs 123 ICPARAUGUST 2023 ICPARAU	GUST2023 ICPARAUGUST2023 ICPARAUGUST2023 I GUST2023 ICPARAUGUST2023 ICPARAUGUST2020 I
Corporate office costs ugust2023 ICPARAUGUST2023 ICPARAU	GUST2023 ICPARAUGUST2023 ICPARAUGUST2020 GUST2023 ICPARAUGUST2023 ICPARAUGUST2023 I
Total costs 2023 ICPARAUGUST 2023 ICPARAUGUST 2023 ICPARAU	GUST2023 ICPARAUGUST2023 ICPARA(372,000)
Operating income (loss) ST2023 ICPARAUGUST2023 ICPARAU	GUST2023 ICPARAUGUST2023 ICPARAU 128,000
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The additional costs of equipment are relevant future costs for the "selling more telephones decision" because they represent incremental future costs that differ between the alternatives of selling and not selling additional telephones.

Current marketing and distribution costs which varies with number of shipments FRW 750,000*40 telephone shipments = FRW 30,000,000. As the sales of telephones double, the number of shipments will double, resulting in incremental marketing and distribution costs of FRW 30,000,000.

General administration and corporate office costs will be unaffected if HDT Co Ltd decides to sell more telephones. Hence, these costs are irrelevant for this particular decision.

(d)

Details Gust2023 icparaugust2023 icparau Details Gust2023 icparaugust2023 icparau	Telephones AUGUST2	Computers	3 Total 3 Total 13 Total
23 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAU 23 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAU	(FRW'000) AUGUST2	(FRW'000)	(FRW'000)
Revenues ST2023 ICPARAUGUST2023 ICPARAU	C500,000 CPARAUGUST2	1,000,000	1,500,000
Variable costs 3 ICPARAUGUST 2023 ICPARAU	c300,000 cparaugust2	2525,000 GUST20	825,000 UST2023 I
Equipment cost written off as 23 ICPARAL GLASTIC COST CPARAL GUST 2023 ICPARAL GUST	GUST2023 ICPARAUGUST2 GUST2023 ICPARAUGUST2 GUST2023 ICPARAUGUST2	023 ICPARAUGUST20: 023 ICPARAUGUST20: 023 ICPARAUGUST20:	3 100,000 ; UST2023 I 3 ICPARAUGUST2023 I 3 ICPARAUGUST2023 I
Marketing and distribution costs	70,000 icparaugust2	135,000 GUST20	205,000 UST20231
Division general administration CPARAL COSTS	G110,000 CPARAUGUST2 GUST2023 ICPARAUGUST2	220,000 GUST20 223 ICPARAUGUST20	330,000 UST2023 I
Corporate office costs UGUST2023 ICPARAU	GUST2023 ICPARAUGUST2	023 ICPARAUGUST20	23-ICPARAUGUST2023 I
Totalacosts 2023 ICPARAUGUST2023 ICPARAU	480,000 CPARAUGUST2	880,000 GUST20	1,460,000 T2023
Effect on operating income (loss)	20,000 icparaugust2	120,000 GUST20	40,000 GUST2023 I

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HDT Co Ltd should open the Musanze Branch because it would increase operating income by FRW 40,000 (increase in relevant revenues of FRW 1,500,000 and increase in relevant costs of FRW1,460,000). The relevant costs include direct materials, direct manufacturing labor, marketing and distribution, equipment, and division general administration costs but not corporate office costs. Note, in particular, that the cost of equipment written off as depreciation is relevant because it is an expected future cost that HDT Co Ltd will incur only if it opens the Kigali branch. Corporate office costs are irrelevant because actual corporate office costs will not change if HDT Co Ltd opens the Musanze branch. The current corporate staff will be able to oversee the Southern Division's operations. Grossman will allocate some corporate office costs to the Southern Division but this allocation represents corporate office costs that are already currently being allocated to some other division. Because actual total corporate office costs do not change, they are irrelevant to the division.

QUESTION THREE

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BICPAF BICPAF ICPAF BICPAF BICPAF	Market share Every component of a variance should be given 0.5 marks, max 2 marks august 2023 icparaugust 20	AUGUST2023 AUGUST2023 AUGUST2023 AUGUST2023
B ICPAE B ICPAE B ICPAE B ICPAE	Market size Every component of a variance should be given 0.5 marks, max 2 marks CPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST202	AUGUST2023 AUGUST2023 AUGUST2023 AUGUST2023
B ICPAE B ICPAE	RAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARA RAU Comment PARAUGUST2023 ICPARAUGUST2023	AUGUST2023 AUGUST2023
B ICPAF B ICPAF	RAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARA RAU Maximum araugust2023 ICPARAUGUST2023 I	AUGUST2023 AUGUST2023
B ICPAH B ICPAH TCPAH B ICPAH B ICPAH	Planning material variance Every component of a variance should be given 0.5 marks, max 3.5 marks	AUGUST2023 AUGUST2023 AU 3:5 ST2023 AUGUST2023
B ICPAF B ICPAF B ICPAF B ICPAF	Operational material variance Every component of a variance should be given 0.5 marks, max 3.5 marks	AUGUST2023 AUGUST2023 AUGUST2023 AUGUST2023
B ICPAE B ICPAE	RAUGUST 2023 ICPARAUGUST 2023 ICPARAUGUST 2023 ICPARAUGUST 2023 ICPARAUGUST 2023 ICPARAUGUST 2023 ICPARA RAU Maximum ARAUGUST 2023 ICPARAUGUST 2023 ICPARAUGUS	AUGUST2023 AUGUST2023
B ICPAE LCPAE B ICPAE B ICPAE B ICPAE	Planning labour efficiency variance Every component of a variance should be given 0.5 marks, max 3.5 marks	AUGUST2023 AUGUST2023 AUGUST2023 AUGUST2023
B ICPAF B ICPAF B ICPAF B ICPAF	Operational labour efficiency variance Every component of a variance should be given 0.5 marks, max 3.5 marks	AUGUST2023 AUGUST2023 AUGUST2023 AUGUST2023
B ICPAF B ICPAF B ICPAF	RAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARA RAU M aximum ARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARA RAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARA	AUGUST2023 AU 7 3UST2023 AUGUST2023
BICPAR BICPAR ICPAR ICPAR BICPAR BICPAR	Assessing the use of standard costing and variance analysis in RMB Ltd Award 1 mark to each well explained point max 5 marks and 1 mark for memo presentation	AUGUST2023 AUGUST2023 AUGUST2023 AUGUST2023 AUGUST2023 AUGUST2023
B ICPAE B ICPAE	RAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARARAUGUST2023 ICPARARAUGUST2023 ICPARARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUST2023 ICPARA	AUGUST2023 AI 25 JST2023

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Model Answers

i. Using the traditional sales volume variance method, the variance will be given by: (Actual units sold - Budgeted sales) * Standard profit per unit: (900,000 - 800,000) *FRW6,000 = FRW600million F

Planning and operational variances

The revised budget would show that RMB Ltd should expect to sell 25% of 3.5 million units = 875,000 units.

Details Gust2023 ICPARAUGUS12023 ICPARAUGU	st2 Formula ugust20231cparauc	UST2023 ICPA FRW (000)
Original sales* standard margin	800,000 * FRW6,000	UST2023 ICPARA 4,800,000
Revised sales * standard margin PARAUGU	875,000 × FRW6,000 RAUG	UST2023 ICPARA5,250,000
Market size 023 ICPARAUGUST 2023 ICPARAUGU	ST2023 ICPARAUGUST2023 ICPARAUG	UST2023 ICPARA 450,000F

Details GUST2023 ICPARAUGUST2023 ICPARAUGUS	Tormula igust2023 icparaug	UST2023 ICPA FRW (000)
Revised sales * standard margin PARAUGUS	875,000 × FRW6,000 RAUG	UST2023 ICPARA5,250,000
Actual sales * standard margin ICPARAUGUS	900,000 × FRW6,000 RAUG	UST2023 ICPARA5,400,000
Market Share 1 CPARAUGUST 2023 ICPARAUGUS Market Share 3 ICPARAUGUST 2023 ICPARAUGUS	S 2023 ICPARAUGUST 2023 ICPARAUG S 2023 ICPARAUGUST 2023 ICPARAUG	UST2023 ICPARA 150,000F

Then, the total sales volume variance will be given by adding up market size and share which will be FRW 450 million and FRW 150 million and totalling 600 million favourable as calculated in the traditional sales volume variance calculations above.

Comment:

Most of the favorable variance can be attributed to the increase in overall market size. However, some can be put down to effort by the sales force which has increased its share from 25% to 25.7% (900,000/3,500,000).

Managers of RMB Ltd should therefore only be appraised based on the operational variance, i.e. the market share variance as they market size is out of their controls.

ii. Calculation of material planning and operational variances

From the scenario, we have been given the following information:

23 ICPARAUGUST2023 ICPARAUGUST2023 ICPARAUGUS	T2023 ICPARA	UGUST2023 ICPAR	AUGUST2023 ICPAR	AUGUST2023 IC
zs icparaugus izozs icparaugus iz 2023 icparaugus 23 <u>i</u> cparaugus iz 2023 icparaugus iz 2023 icparaugus	T2023 ICPARA T2023 ICPARA	UGUST2023 ICPAR UGUST2023 ICPAR	AUGUST2023 ICPAR. AUGUST2023 ICPAR.	AUGUST202310
Budgeted production and sales ICPARAUGUS	T2023 ICPARA	UGUST2023 ICPAR	AUGUST2023 ICPAR	AUG 60,000
Actual production and sales 1023 ICPARAUGUS	T2023 ICPARA T2023 ICPARA	UGUST2023 ICPAR UGUST2023 ICPAR	AUGUST2023 ICPAR. AUGUST2023 ICPAR.	48,000
Actual material used and purchased AUGUS	T2023 ICPARA T2023 ICPARA	UGUST2023 ICPAR UGUST2023 ICPAR	AUGUST2023 ICPAR AUGUST2023 ICPAR	AUGUST202310 AU 109,120
23 ICPARAUGUST 2023 ICPARAUGUST 2023 ICPARAUGUS 23 ICPARAUGUST 2023 ICPARAUGUST 2023 ICPARAUGUS	T2023 ICPARA T2023 ICPARA	ugus New bag	AUGUST 2023 ICPAR AUGUST 2023 ICPAR	AUOIS 2023 N
Standard price per meter ST2023 ICPARAUGUS	T2023 ICPARA T2023 ICPARA	ugust2023 icpar ugust202 3, 150	AUGUST2023 ICPAR. AUGUST2023 ICPAR.	augus 12023 i Augus 3,281 i
Standard quantity per bag (meters)	T2023 ICPARA T2023 ICPARA	UGUST2023 ICPAR UGUST2023 IC 4:4	AUGUST2023 ICPAR. AUGUST2023 ICPAR.	AUGUST202310 AUGUST202 4 10
Labor hours per bag-Minutes 23 ICPARATIGUS	T2023 ICPARA T2023 ICPARA	.UGUST2023 ICPAR .UGUST2023 ICP \5	AUGUST2023 ICPAR. AUGUST2023 ICPAR.	AUGUST2023 R $_{ m AUGUST2010}$

););	SQAP (standard quantity for actual production)	4 meters*48,000	192,000 meters
)(RQAP (revised quantity for actual production) ICPARAL	4.4 meters*48,000	211.200 meters
)(3 ICPARAUGUST 2023 ICPARAUGUST 2023 ICPARAUGUST 2023 ICPARAU	GUST2023 ICPARAUGUST2	023 ICPARAUGUST2023 IC

A2.2araugust2023 icparaugust2023 icparaugust2023 icparaugust2023 icparaugust2023 iPage1310f19

From the scenario the actual production level (AP) is 48,000 bags and actual quantity of material bought and used (AQ) is 109,120 meters.

Material ST2023 10 price	UST2023 ICPARAUGU	ST2023 ICPARAUGUST2023 ICPARAUGUST20	23 ICPARAUGUST2023 IC
023 ICPARAUGUST2023 ICPARAUG	UST2023 ICPARAUGU	ST2023 ICPARAUGUST2023 ICPARAUGUST20	23 ICPARAUGUST2023 IC
2: Variances ST2023 ICPARAUG	UST2023 ICPARAUGU	ST2023 ICPARAUGUST2023 ICPARAUGUST20	23 F18 W (AUGUST2023 IC
D23 ICPARAUGUST2023 ICPARAUG	(SP -RP) *	(FRW3,281-FRW3,150) *	23 ICPARAUGUST2023 IC
Planning variance PARAUG	U \mathbf{AQ} 23 ICPARAUGU	${ m s}109{,}120$ araugust2023 icparaugust20	14,294,720F
023 ICPARAUGUST 2023 ICPARAUG 023 ICPARAUGUST 2023 ICPARAUG	(RP -AP) *	(FRW3,150 - FRW3,150) *	23 ICPARAUGUST2023 IC 23 ICPARAUGUST2023 IC
Operational variance	UAQ 23 ICPARAUGU	s109,120 araugust 2023 icparaugust 20	23 ICPARAUGUST2023 IC
Total price variance	UST2023 ICPARAUGU UST2023 ICPARAUGU	ST2023 ICPARAUGUST2023 ICPARAUGUST20	14,294,720F

Material ST2023 ICusage	IST2023 ICPARAUGUST2023 IST2023 ICPARAUGUST2023	ICPARAUGUST2023 ICPARAUGUST2023 IC ICPARAUGUST2023 ICPARAUGUST2023 IC	PARAUGUST2023 IC
variances st2023 ICPARAUGU	JST2023 ICPARAUGUST2023	ICPARAUGUST2023 ICPARAUGUST2023 IC	PFRWUST2023 IC
023 ICPARAUGUST2023 ICPARAUGU	(SQAP - RQAP) *	(192,000 - 211,200) **	PARAUGUST2023 IC
Planning variance PARAUGI	ISP023 ICPARAUGUST2023	FRW3,2810231CPARAUGUST20231C	62,995,200A
) 23 ICPARAUGUST 2023 ICPARAUGU) 23 ICPARAUGUST 2023 ICPARAUGU	IST2023 ICPARAUGUST2023 IST2023 ICPARAUGUST2023	(211,200 -109,120) *	334,924,480
Operational variance VGU	(RQAP -AQ) * SP	FRW3,281023 ICPARAUGUST2023 IC	PFRAUGUST2023 IC
023 ICPARAUGUST 2023 ICPARAUGU	IST2023 ICPARAUGUST2023	ICPARAUGUST2023 ICPARAUGUST2023 IC	271,929,280
Total usage variance	JST2023 ICPARAUGUST2023 JST2023 ICPARAUGUST2023	ICPARAUGUST2023 ICPARAUGUST2023 IC ICPARAUGUST2023 ICPARAUGUST2023 IC	PARAUGUST2023 IC
Total UGUST202 material	IST2023 ICPARAUGUST2023	ICPARAUGUST2023 ICPARAUGUST2023 IC	286,224,000
023 ICPARAUGUST2023 ICPARAUGU 023 VARIANCE UST2023 ICPARAUGU	IST2023 ICPARAUGUST2023 IST2023 ICPARAUGUST2023	ICPARAUGUST2023 ICPARAUGUST2023 IC ICPARAUGUST2023 ICPARAUGUST2023 IC	PARAUGUST2023 IC PRAUGUST2023 IC

iii Calculation of labor efficiency planning and operational variances

Z3 ICPARAUGUSTZOZ3 ICPARAUGUSTZOZ3 ICPARAUGUST 23 ICPARAUGUST2O23 ICPARAUGUST2O23 ICPARAUGUST	48staff * 8 hours a	ARAUGUST2023 IC ARAUGUST2023 IC
AH (actual hours worked and paid) RAUGUST	day*5days*4weeksCPARAUGUST2023ICP	7680 hours
SHAP (standard ar hours 20 for palactual)	2023 ICPARAUGUST 2023 ICPARAUGUST 2023 ICP	ARAUGUST2023 IC
23 ICPARAUGUSV2023 ICPARAUGUST2023 ICPARAUGUST production	(48,000 * 10minutes)/60minutes	8000 hours
RHAPugu(revisedParhours 120 for Paractual)	2023 ICPARAUGUST2023 ICPARAUGUST2023 ICP	AI 12000 T2023 IC
production) 12023 ICPARAUGUST2023 ICPARAUGUST production) 12023 ICPARAUGUST2023 ICPARAUGUST	(48,000 * 15minutes)/60mimnutes	hours 12023 IC

From the scenario the standard rate per hour (SR) is FRW12,000, the standard time per dress is 10 minutes and the revised time per dress is 15 minutes.

Labor efficiency variances	3 ICPARAUGUST2023 ICPARA	UGUST2023 ICPARAUGUST2023 ICP	4 FRW ST20231
2 3 ICPARAUGUST2023 ICPARAUGUST202 23 ICPARAUGUST2023 ICPARAUGUST202	(SHAP - RHAP) *	(8000-23 ICPA12000) T2023 I*P	48,000,000
Planning variance PARAUGUST20	3 RARAUGUST2023 ICPARA	FRW12,000 RAUGUST2023 ICP	ARAUGUST2023 I
23 ICPARAUGUST2023 ICPARAUGUST202	3 ICPARAUGUST2023 ICPARA	(12000)3 ICPAE7680)T2023 I*P	51,840,000
Operational variance Operational variance	(RHAP - AH) * SR	FRW12,000 RAUGUST2023 ICP	ARAUGUST2023 I ARAUGUST2023 I
Total labor efficiency	3 ICPARAUGUST2023 ICPARA	UGUST2023 ICPARAUGUST2023 ICP	ARAUGUST2023 I
23 ICPARAUGUS 12023 ICPARAUGUS 1202 2 Variance us 12023 ICPARAUGUS 1202	3 ICPARAUGUST 2023 ICPARA 3 ICPARAUGUST 2023 ICPARA	UGUST 2023 ICPARAUGUST 2023 ICP UGUST 2023 ICPARAUGUST 2023 ICP	3,840,000F

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iv. By Considering the production environment of RMB Ltd, the following is the critical assessment on the use of standard costing and variance analysis in RMB Ltd

MEMO

From: Management accountant To: Chief Executive Officer,

Date:01/01/2020

Re: critical assessment on the use of standard costing and variance analysis in RMB Ltd

The standard costing and variance analysis have been very popular performance measurement in manufacturing industry. Nowadays, as the technology evolves, the use of traditional budgetary systems and variance analysis as a measure of performance are not appropriate due to the continuing improvement in technology and other factors including but not limited to the following:

- 1. **Non-standard product:** Nowadays, many modern manufacturing industries like RMB have no standard products, the company design and produce a product depending on the clients' specific specifications. Therefore, the products differ and are customized depending on the preference of a particular client. This makes the use of traditional standard costing system and variance analysis very hard to be used in the manufacturing environment like this.
- 2. **Standard costs card can be outdated quickly:** In RMB Ltd, there is an innovation and research department which should ensure the new method of producing bags. This make standard costing system very hard to be used because the company keeps changing the design, inputs requirements et. Therefore, the continual update of standard cost card as designs and costs change can be cost full in both terms of finance and time
- 3. RMB Ltd production processes are very automated: It is doubtful whether standard costing system is of much value for performance setting and controlling an automated manufacturing environment like that of RMB Ltd. There is an underlying assumption in standard costing that control can be exercised by concentrating on the efficiency of the workforce. Direct labor efficiency standards are seen as the key to management control. However, in RMB Ltd, there is a technological manufacturing processes where the rates of production output and material consumption are controlled by the machinery rather than the workforce.
- 4. **Ideal standard used:** Variance are the difference between actual and standard performance, measured in cost terms. The significance of variances for management control purposes depends on the type of standard cost used. RMB Ltd adopts JIT ns TQM systems, businesses often implement an ideal standard due to the emphasis on continuous improvement and high quality. Therefore, adverse variances with an ideal standard have a different meaning from adverse variances calculated with a current standard.
- 5. **Emphasis on continuous improvement:** As it is emphasized in the scenario, RMB Ltd adopted the JIT and TQM system. Standard costing and adherence to a preset standard is inconsistent with those system as applied in RMB Ltd.
- 6. **Monitoring performance is important:** Variance analysis control reports tend to be made available to managers at the end of a reporting period like a week, month, quarter or a year. In the modern manufacturing environment like that of RMB Ltd, managers need more real time information about events as they occur.

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7. **Detailed information is required:** Variance analysis is often carried out on an aggregate basis (total material usage variance, total labor efficiency variance etc..) but in a complex and constantly changing business environment like that of RMB Ltd, more detailed information is required for effective management control which variance analysis does not provide.

Standard costing system and variance analysis is a key management and performance tool across many sectors mostly in the manufacturing sector. These factors do not mean that modern manufacturing industries are not using this system anymore or are out of use completely. The idea is for the efficiency and effective performance the modern and highly changing environment are changing and the use of standard costing system and variance are being gradually being little used.

Management Accountant.

QUESTION FOUR

Marking Guide

a) Determine what should be the transfer price for each product unit if the total labour hours are limited to 6000 hours at SIMEX

Hours required to meet maximum demand

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CPARAUGUST20	b) Examine the ideal approach that would be able to provide goal congruent opportunities to PARAUGUST202310
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CPARAUGUST20	c) Value Based Management is considered to be a philosophy about corporate value: PARAUGUST20231
CPARAUGUST20	interpret the difference between value-based management and value mindset. RAUGUST 2023 ICPARAUGUST 2023 ICP
CPARAUGUST20	
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paraugust20.**Model Answers**; icparaugust2023 i

paraugust20 a) | Determine what should be the transfer price for each product unit if the total labour hours paraugust2023 | P

Solution:	Hours * De	emand	Total T	D23 ICPARA	UGUST2023	ICPARAUG	UST2023 IC	PARAUGU	JST2023 I
023 ICPARAUGUST2	023 ICPARAUGU	ST2023 ICF/	ARAUGUST2	D23 ICPARA	UGUST2023	CPARAUG	UST2023 IC	PARAUGU	JST2023 I
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023 ICPARAUGUST2	023 ICPARAUGU	ST2023 ICP/	ARAUGUST2	D23 ICPARA	UGUST2023	BICPARAUG	UST2023 IC	PARAUGU	JST2023 I
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023 ICPARAUGUS12 023 ICPARAUGUST2	023 ICPARAUGU 023 ICPARAUGU	S12023 ICP/ ST2023 ICP/	ARAUGUST20 ARAUGUST20	D23 ICPARA D23 ICPARA	UGUST2023 UGUST2023	BICPARAUG	UST2023 IC	PARAUGU	JST2023 I JST2023 I
Total Hours	023 ICPARAUGU	ST2023 ICP	R6600ST2	023 ICPARA	UGUST2023	ICPARAUG	UST2023 IC	PARAUGU	JST2023 I
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023 ICPARAUGUST2	023 ICPARAUGU	ST2023 ICP/	ARAUGUST2	D23 ICPARA	UGUST2023	ICPARAUG	UST2023 IC	PARAUGU	JST2023 I
Priority for sel	lling:paraugu	ST2023 ICP	AR3UGUST20	023 ICPAR $\!2$	UGUST2023	ICPARAUG	UST2023IC	PARAUGU	JST2023 I
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Total hours ne	eded	ST2023 ICP/ ST2023 ICP/	3200	023 ICPAR 023 ICPAR	500 ST2023	1CPA 900	=6,600	PARAUGU	JST2023 I JST2023 I
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If labour hours are limited to 6000

	BICPARAUGUST2023 ICPARAUGUST2 BICPAR 3 JGUST2023 ICPAR 900 UST2
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	3 ICPARAUGUST2023 ICPAR AUM ST2 3 ICPARAUGUST2023 ICPARAUGUST2
Unipara650st2023	B ICPAR <mark>4</mark> JGUST2023 ICPAR 2600 ST2 B ICPARAUGUST2023 ICPAR AUGU ST2
	3 ICPARAUGUST2023 ICPARAUGUST2 3 ICPARAUGUST2023 ICPAR 6000 ST2

In order to transfer the 400 units of Una to SIMAKO means foregoing the sale of 650 Units of Uni as 2600 hours would be need to make the transferred units.

Therefore, the opportunity cost of transferring a unit of Uni and the appropriate transfer price is as follows: ST2023 ICPARAUGUST2023 ICPARAU

FRW per unit

Variab	le cost of mak	ing Una	3 ICPARAUC 3 ICPARAUC	IUST2023 IC IUST2023 IC	14,000
)23 ICPAR	AUGUST2023 ICPA	RAUGUST202	3 ICPARAUC	UST2023 IC	PARAUGUST?
Opport	unity cost: be	nefit forego	one (3250) *5)2023 IC US)2023 IC	16,250
	AUGUST2023 ICPA	multi contracti	01011111100		TITLE TO COUNTY
Transfe	er price for Ur	RAUGUST202	3 ICPARAUC	UST2023 IC	30,250

The transfer price for the Uni should be FRW 30,250 which is less than the external market price of FRW 32,000.3 ICPARAUGUST2023 ICPARAUGUST20

b) Examining the ideal approach that would be able to provide goal congruence opportunities to all the profit centres.

Negotiated transfer pricing

This is a transfer pricing method adopted as a result of failure to identify an opportunity cost mainly attributable to lack of information about costs and revenues in the concerned individual divisions. This therefore calls for both divisional managers to negotiate the most appropriate price whilst identifying opportunities for improving profits beneficial for both divisions.

The ideal approach that would be able to provide goal congruent opportunities to SIMEX and its 23 ICPARAUGUST 2023 ICPARAUGUS

Both subsidiaries would need to submit plans for output and sales to SIMEX Ltd as a starting point to facilitate annual budget preparation.

SIMEX will review them along with any other information available at its disposal with any amendment requiring consent with the subsidiary managers.

Once SIMEX is happy with the plans, assuming they will have been found consistent with each subsidiary, SIMEX will then let subsidiary managers arrange budgeted transfers and transfer prices. If they are not there, SIMEX would need to establish a plan that would maximise profits as a whole with emphasise that both subsidiaries negotiate their prices based on SIMEX's plan.

If the subsidiary managers fail to agree a transfer price between themselves, they would then seek for an opinion or decision from SIMEX.

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With SIMEX intervention, subsidiaries will be able to finalise their budgets within the agreed transfer price and resource constraint framework, while SIMEX will be doing the monitoring role regarding each subsidiary's profit performance.

c) Interpret the difference between value-based management and value mindset

VBM is a management approach that aligns an organisation's overall aspirations, analytical techniques, and management processes with the key drivers of value. For example, the performance measure adopted by an organisation is used in creating value throughout the organisation and equally embedded into its organisational culture.

Value mindset requires companies to focus enough on value creation by combining both financial and non-financial goals in order to have a balanced approach to performance review and measurement including senior managers possessing a solid analytical understanding of which performance variables drive the value of an organisation.

Linkage at the different levels of the organisation has to be seen in order to maximise organisational value: For the CEO, the objective may be stated as value creation measured in financial terms; Operations Director may want to focus on operational measures such as cycle time, cost per unit, defect rate etc; while the Marketing Director, may want to focus on customer service issues.

END OF MARKING GUIDE AND MODEL ANSWERS

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