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CERTIFIED PUBLIC ACCOUNTANT

FOUNDATION LEVEL 2 EXAMINATIONS

F2.1: MANAGEMENT ACCOUNTING

DATE: WEDNESDAY 28, FEBRUARY 2024

INSTRUCTIONS:

1. **Time allowed**: **3 hours 15 minutes** (15 minutes reading and 3hours for writing).
2. This examination has **seven questions** and only **five questions** should be attempted.
3. Marks allocated to each question are shown at the end of each question.
4. Show all your workings where applicable.
5. The question paper should not be taken out of the examination room.

QUESTION ONE

(a) To ensure that management accounting information is used effectively, there are various attributes or qualities that such information should possess. This enhances the credibility of such information.

Required:

Describe seven qualities that the management accounting information should possess.

(7 Marks)

(b) Non-Manufacturing costs are costs incurred by all activities that support the production of goods and services.

Required:

With reference to this statement, **describe the various classifications of non-manufacturing costs incurred in organisations** (5 Marks)

(c) Habimana has been working as the management accountant of Everst hotel for five years. He has been carrying out his duties with utmost commitment and dedication. This led to the management trusting him and he has been carrying out his duties without strict supervision from the top management. As a result of this, he started engaging in activities that compromised his integrity. The management has since learnt about his behaviour and feel aggrieved. On the other hand, Habimana has apologised and has devoted to maintain the highest levels of integrity.

Required:

Advice Habimana on ways of maintaining the highest levels of integrity that is required of a professional accountant. (8 Marks)

(Total: 20 Marks)

QUESTION TWO

(a) Ubawamayo Ltd operates a standard marginal costing system. Information relating to one of the products that is produced by the company for the month of December 2023 is provided in the table below.

Details	**Standard marginal cost per unit (FRW)**
Direct materials (6 kg at FRW400 per kilogram)	2,400
Direct labour (1 hour at FRW 700)	700
Variable production overhead	300
Total	**3,400**

Additional information:

1. Budgeted fixed production overheads amounts to FRW 10,200,000.
2. Variable production overheads vary with the units produced.
3. The budgeted selling price per unit was FRW 4,400
4. The budgeted production per month for this product was 24,000 units
5. The actual results for the month of December 2023 were provided in the table below:

Actual units produced	19, 500
	FRW
Direct material used (113,500 kilograms)	44,265,000
Direct labour (17,800 hours)	12,994,400
Variable production overheads	5,050,800
Fixed production overheads	9,503,200
Actual selling price per unit	4,440

Required:

Using the columnar format, prepare:

(i) Fixed budget (4 Marks)

(ii) Flexible budget (4 Marks)

(iii) Actual income statement (4 Marks)

(b) Any system of cost control, to be fully effective, it must provide for motivation and incentive. If this requirement is not satisfied, managers will approach their responsibilities in a very cautious and conservative manner.

Required:

Discuss how a budgetary control system negatively impact organisational performance

(8 Marks)

(Total: 20 Marks)

QUESTION THREE

(a) Mugwaneza Ltd (ML) is a company that manufactures an equipment that requires four components namely WEE, EXE, YEE ZEE. The data provided below relates to the budgeted production units and costs for each component for the forthcoming period.

Component				
Details	**WEE**	**EXE**	**YEE**	**ZEE**
Production units	20,000	40,000	80,000	60,000
Variable cost per unit (FRW)				
Direct materials	80	100	40	80
Direct labour	160	180	80	120
Overheads	40	60	20	40
Total specific fixed costs (FRW “000”)	1,200	1,000	1,200	3,000

Additional information:

1. The company has the option of acquiring the components from a dealer. The prices offered by the dealer are FRW 240, FRW 420, FRW 200, FRW 280 for WEE, EXE, YEE and ZEE respectively.
2. The general fixed overheads for the period amount to FRW 600,000 per annum.

Required:

(i) Advise the company on the best options. (8 Marks)

(ii) Identify any other factor that should be considered by the company when making the decision in (i) above. (2 Marks)

(b) Rimela Ltd is prospecting for a job and have been asked to quote for a one-off contract. The management of the company has approached you for advice on the relevant costs of the contract. The following information has been presented to you;

Materials

The contract requires 30,000 kilograms of material A. this is a material that is ordinarily used by the organisation in other production. Currently, the company has 19,000 kg in stock and had been purchased for FRW 1,862,000. Since that time, the price of the material has increased by 4% due to inflation.

The contract also requires 2,000 kg of material B. currently, there are 2,500 kg of the material in stock and are not required for normal production. The material cost was FRW 3,125,000. If the material is not used in the contract, it will be sold for FRW 1,100 per kg.

Labour

The contract requires 8,000 hours of skilled labour which is paid at the rate of FRW 950 per hour.

The skilled labour is currently fully engaged in the manufacture of product P whose details are provided below.

	FRW	FRW
Sales price		10,000
Less		
Skilled labour	3,800	
Variable overheads	2,200	6,000
Contribution		**4,000**

Required:

Calculate the total relevant costs that will help in making a decision regarding the contract in respect of:

(i) Material A (3 Marks)

(ii) Material B (3 Marks)

(iii) Skilled labour (4 Marks)

(Total: 20 Marks)

QUESTION FOUR

(a) Sangwa limited is a company that has been operating in Rwanda for the last two years. The management is concerned as to when the company will start generating profits. The management has sorted your services as an expert in management accounting. The management has provided you with the following data relating to last year's operations, to assist you in your analysis.

The sales amounted to 150 million Rwandan francs. However, in a bid to attract customers, the sales price will be reduced by 3%. The total cost of the materials was 32.5 million Rwandan francs. The cost is expected to decrease by 3 % due to improved internal operations. The total labour cost was FRW 27 million. The company is not able to predict the changes in labour cost. The variable overhead cost and administration expenses were FRW 35 million and FRW 10.5 million respectively. It is expected that the variable overhead cost will decrease by 3% and the administration expenses will remain constant. The total selling and distribution costs were FRW 23 million of which 10 was fixed. The variable selling and distribution cost will decrease by 4% in the forthcoming period. There will be no closing stock at the end of the period.

Required:

(i) Using the data provided above, **calculate the breakeven point in sales value.** (6 Marks)

(ii) Determine the margin of safety in sales value for the year. (2 Marks)

(iii)Advice the management on the level of sales that the company has to make if they have to make a profit of FRW 24 million. (2 Marks)

(b) Labour shortage has been a major challenge in numerous organisations. **Highlight possible steps that may be undertaken by the organisations to solve this problem** (5 Marks)

(c) Discuss limitations of Cost-Volume-Profit (CVP) analysis. (5 Marks)

(Total: 20 Marks)

QUESTION FIVE

(a) Gitarama company Ltd produces tubes. The following information was provided for the year 2023.

Production	20,000 tubes
Sales	15,000 tubes
Production costs	**FRW**
Direct material	24,000,000
Direct labour	6,000,000
Variable overheads	5,000,000
Fixed overheads	9,000,000
Selling and administration	
Sales commission	2,500,000
General expenses	1,600,000
Overheads (Fixed)	2,400,000

Additional information:

1. The company sells each tube at a price of FRW 3,000
2. There were no opening inventories.

Required:

(i) Standard cost card for production for both marginal and absorption costing (2 Marks)
(ii) Absorption costing income statement (4 Marks)
(iii) Marginal costing income statement (4 Marks)
(iv) Reconciliation statement on the profit/loss (2 Marks)

(b) You have been recently appointed as the organisation's management accountant. During your initial meeting, the management expressed their interest of shifting from the traditional full costing method to the modern marginal costing method. However, they do not have a clear understanding of the differences between the two costing methods. In your first assignment, you are required to help the management to understand the differences between the two.

Required:

Discuss the differences between the absorption and the marginal costing methods.

(8 Marks)

(Total: 20 Marks)

QUESTION SIX

(a) Muhabura Ltd has the following production planned for the next three days. The values shown reflect the full capacity level of production. Estimated output is equal to the maximum demand of products produced by Muhabura Ltd.

	Product A	**Product B**	**Product C**	**Product D**
Selling price per unit (FRW)	6,000	8,280	4,800	5,400
Direct labour cost per unit (FRW)	2,000	1,600	1,200	1,800
Raw material cost per unit (FRW)	1,300	1,400	800	1,250
Variable production overhead cost per unit (FRW)	750	800	920	600
Fixed production overhead cost per unit (FRW)	650	600	620	500
Profit per unit	1,300	3,880	1,260	1,250
Output (Units)	300	420	250	200
Direct labour hours per unit	2	1	1.5	2
Raw materials kgs per unit	4	6	2.5	5

Muhabura Ltd currently only has a total 4,000 kgs of materials and 2,000 hours of labour available for the next three days.

Required:

(i) Determine whether raw materials or labour or both raw materials and labour are limiting factors. (5 Marks)

(ii) Calculate contribution per unit of limiting factor. (4 Marks)

(iii) Find the optimal production plan and total contribution. (6 Marks)

(b) Explain five factors to be considered before outsourcing. (5 Marks)

(Total: 20 Marks)

QUESTION SEVEN

(a) Management accounting is defined as accounts that are prepared to assist management in their decision-making process. Scope of management accounting is very vast and includes various aspects of the business activities. Management accounting has its scope in a number of fields or systems:

Required:

Explain five scope items of management accounting fields or systems. (10 Marks)

(b) Inshuti Furniture's Ltd (IFL) is a furniture making company which manufacturers quality furniture to customers' orders. The company has received orders from two different customers who want IFL to make the furniture according to their specifications. IFL has corded the two jobs as Job 6101 and Job 6102.

The following information relates to the two jobs:

	Job 6101	**Job 6102**
Direct materials	50kgs @ FRW 500 per kg	35 kgs @ FRW 800 per kg
Direct labour	25 hours FRW 1,500 per hour	18 hours FRW 1,750 per hour
Variable production overheads	FRW 400 per hour	FRW 560 per labour hour

Fixed production overheads are budgeted at FRW 45,000 for the two products and are apportioned on the basis of direct labour hours spent in each job. The other non-production overheads are recovered at a rate of FRW 15,000 per job. IFL has a policy of charging a profit margin of 20% for each job done.

Required:

Calculate the price that IFL will charge for of job number 6101 and 6102 inform of a statement. Clearly show the prime cost, marginal cost, absorption cost, total cost and job price for each job. (10 Marks)

(Total: 20 Marks)

End of question paper