



CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 2 EXAMINATIONS
F2.1: MANAGEMENT ACCOUNTING
DATE: WEDNESDAY 29, MAY 2024
MARKING GUIDE AND MODEL ANSWER

QUESTION ONE

MARKING GUIDE

	<u>Marks</u>
(a) Usefulness of Information	
Each point explained 2 marks awarded (2 * 4)	<u>8</u>
Maximum marks awarded for part a	8
b) Differences between management and financial accounting	
Users	2
Purpose	2
Period / Time	2
Format	2
Legal requirement	2
Nature	<u>2</u>
Maximum marks awarded for part b	<u>12</u>
Total	<u>20 Marks</u>

MODEL ANSWER

1) a. Explain 4 usefulness of information obtained from management accounting in an organization

1. Formulation of company policies. Company policies are normally formulated based on management accountants advisory.
2. Planning and controlling the activities of the enterprise. Planning involves setting of the goals and objectives while control involves comparison of actual performance to the plan to get the variance and investigate the cause.
3. Decision taking on alternative course of action. Management make decisions based on the relevant information provided by management accountants.
4. Safeguarding of company's assets. Information provided through management accounts may help in safeguarding the assets of the business as it helps provide detailed records and value of the organizations assets.
5. Quality control purposes.
6. Disclosure to the shareholders when required to do so.
7. Disclosure to personnel (employees).

1) b. Explain six differences between management accounting and financial accounting in the following areas

		Financial Accounting	Management Accounting
1	Users	External users like Government and Banks	Internal users like the employees and management
2	Purpose	Show financial performance, financial position, changes in financial position and cash position	For planning, control and decision making
3	Nature	Financial in nature	Both Financial and Non-Financial in nature
4	Format	Accounting standards provide the format of financial statements	Management decides on the format
5	Legal	Its mandatory for all limited companies to prepare financial statements	No legal requirement for management accounts
6	Period	For the period past	Both historical and future looking

QUESTION TWO

MARKING GUIDE

	<u>Marks</u>
(a) Four characteristics of Relevant Cost	
Listing of each characteristic (0.5 Mark * 4)	2
Explanation of each listed roles (0.5 Mark * 4)	<u>2</u>
Maximum Marks for part a	4
(b) Functional Budgets	
i) Sales budget	
Accounting for sales unit	1
Accounting for sales price/unit	1
Accounting for sales value and totals	1
ii) Production Budget	
Sales units	1
Closing inventory	1
Opening inventory	1
iii) Materials Usage Budget	
A (1 mark for correct accounting for A)	1
B (1 mark for correct accounting for B)	1
C (1 mark for correct accounting for C)	<u>1</u>
Maximum Marks for part b	9
c) Cost Estimation using High Low Method	
i) Variable cost per unit	
Application of the formula	1
Correct computation of final answer	1
ii) Fixed cost	
Application of the formula	1
Correct computation of final answer	1
ii) Estimation of admission costs	
Application of the formula	1
Correct computation of final answer	<u>1</u>
Maximum Marks for part c	7
Total	20 Marks

MODEL ANSWER

2) a. Explain four characteristics of Relevant Costs

1. **Future costs:** Relevant costs are costs to be incurred in the time to come. They are not costs already incurred because such costs can never be reversed.
2. **Cash flows:** There must be evidence of cash flows for a cost to be defined as relevant. Depreciation does not result into cash flow thus not relevant.
3. **Incremental costs:** Decision making involves a choice between alternatives. Thus when making decision you only consider the difference between the options and leave out what is common
4. **Opportunity costs:** Is the value of the benefit sacrificed. The alternative that is forgone. It should be considered in making a decision.
5. **Avoidable costs:** Costs that will not be incurred if the decision is not made thus a relevant cost.

2) b.

i) Sales Budget

	<u>February</u>	<u>March</u>	<u>April</u>	<u>Total</u>
Sales units	24,200	22,600	20,800	67,600
Selling price per unit (Frw)	3,500	3,500	3,500	-
Sales value (Frw)	84,700,000	79,100,000	72,800,000	236,600,000

ii) Production Budget

	<u>February</u>	<u>March</u>	<u>April</u>
Sales units	24,200	22,600	20,800
Add: Closing inventory	5,650	5,200	4,550
Less: Opening inventory	6,050	5,650	5,200
Production units	23,800	22,150	20,150

Workings	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>
Sales units	22,500	24,200	22,600	20,800	18,200
Closing inventory (25% of next)	6,050	5,650	5,200	4,550	-
Opening inventory	5,200	6,050	5,650	5,200	4,550

iii) Materials Usage Budget

MUB = Production Units * Quantity per unit

		<u>A</u>		<u>B</u>
February	(23,800 * 8) =	190,400	(23,800 * 6) =	142,800
March	(22,150 * 8) =	177,200	(22,150 * 6) =	132,900
April	(20,150 * 8) =	161,200	(20,150 * 6) =	120,900
Material Usage Budget (kgs)		<u>528,800</u>		<u>396,600</u>

c)

i) Using High Low Method estimate the variable cost per patient

VC/Patient =	<u>Cost @ Highest Activity - Cost @ Lowest Activity</u>		
	<u>Highest Activity - Lowest Activity</u>		
VC/Patient =	<u>304,000 - 256,000</u>		
	3,800 - 2,200		
VC/Patient =	<u>48,000</u>		
	1,600		
VC/Patient =	30	Frw/Patient	

ii) Fixed Cost incurred

Total Cost =	(Variable Cost/Patient * No of Patients) + Fixed Cost		
304,000 =	(30 * 3,800) + Fixed Cost		
Fixed Cost =	304,000 - (30* 3,800)		
	304,000 -	114,000	
Fixed Cost =	190,000		

iii) Admission department cost of 2,100 patients

TC =	30 x + 190,000	
TC =	(30* 2,100) + 190,000	
VC =	63,000	
FC =	190,000	
TC =	63,000 + 190,000	
TC =	253,000	

QUESTION THREE

MARKING GUIDE

	<u>Marks</u>
(a) Calculation of variances	
i) Material price variance	
Application of the formula (1 mark awarded)	1
Correct answer (1 mark awarded)	1
ii) Material usage variance	
Application of the formula (1 mark awarded)	1
Correct answer (1 mark awarded)	1
iii) Labour rate variance	
Application of the formula (1 mark awarded)	1
Correct answer (1 mark awarded)	1
iv) Labour efficiency variance	
Application of the formula (1 mark awarded)	1
Correct answer (1 mark awarded)	1
v) Variable overhead efficiency variance	
Application of the formula (1 mark awarded)	1
Correct answer (1 mark awarded)	1
vi) Variable overhead expenditure variance	
Application of the formula (1 mark awarded)	1
Correct answer (1 mark awarded)	<u>1</u>
Maximum marks for part a	12
b) Explanation of terms used in standard costing	
i) Attainable standards	2
ii) Ideal standards	2
iii) Current standards	2
iv) Basic standards	2
Depreciation of Equipment (Correct apportionment based on v)	<u>2</u>
Maximum marks for part b	<u>8</u>
Total	<u>20 Marks</u>

MODEL ANSWER

a) Calculate the following variances					
i) Material price variance (MPV)					
MPV = (Budgeted price per kg - Actual price per kg) * Actual Quantity					
MPV = (80 - 85) * 48,000					
MPV =	240,000	Adverse			

ii Material usage variance

MUV=(SQ-AQ)SP (45,000-48,000)80	240,000 Adverse
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iii) Labour rate variance (LRV)	
LRV = (Budgeted rate per hour - Actual rate per hour) * Actual hours	
LRV = (70 - 65)* 3,770,000 / 65	
Actual Hours = 3,770,000 / 65 = 58,000	
LRV =	290,000 Favourable

iv) Labour efficiency variance (LEV)	
LEV = (Budgeted hours for actual production - Actual hour) * Budgeted rate per hour	
Budgeted hours per unit = 60,000 hrs / 100,000 units = 0.6 hrs per unit	
LEV = ({0.6 * 90,000} - 58,000) * 70	
LEV = (54,000 - 58,000) * 70	
LEV =	280,000 Adverse

v) Variable overhead efficiency variance (V Eff V)	
V Eff V = (Budgeted hours for actual production - Actual hour) * Budgeted rate per hour	
Budgeted hours per unit = 60,000 hrs / 100,000 units = 0.6 hrs per unit	
V Eff V = ({0.6 * 90,000} - 58,000) * 50	
V Eff V = (54,000 - 58,000) * 50	
V eff V =	200,000 Adverse

vi) Variable overhead expenditure variance (V Exp V)	
V Exp V = (Budgeted rate per hour - Actual rate per hour) * Actual hours	
V Exp V = (50 - 45)* 2,610,000 /45	
Actual Hours =2,610,000 / 45 = 58,000	
V Exp V = (50 - 45) * 58,000	
V Exp V =	290,000 Favourable

b) Explain the following terms as used in standard costing

i. Attainable Standards

Standard set based on efficient but not perfect operating conditions. Provides for idle time, wastage, spoilage, spillage etc.

ii. Ideal Standard

Standard set based on perfect operating conditions. Assumes there will be no idle time, wastage, spoilage, spillage etc.

iii. Current Standard

Standard that is continuously adjusted to reflected changes in the operating environment.

iv. Basic Standard

Long term standard set that remains unchanged over a period of time.

QUESTION FOUR

MARKING GUIDE

	<u>Marks</u>
(a) Limiting Factor (Optimal Production Plan)	
i) Shortfall in highly skilled labour	
Hours Available listing	0.5
Calculation of labour hours needed	1
Finding the short fall	0.5
ii) Calculation of optimal production plan	
Contribution per unit	1
Contribution per unit of limiting factor	1
Ranking of the products	1
Calculation of hours used	1
Calculation of hours remaining	1
Finding the optimal plan (final answer)	1
iii) Profit at the optimal production plan	
Total contribution	1
Profit	<u>1</u>
Maximum marks for part a	10
b) Accounting for Overheads	
i) Allocation and apportionment (Primary Apportionment)	
Rent (Correct apportionment based on floor area)	1
Heat & Light (Correct apportionment based on cubic capacity)	1
Welfare Cost (Correct apportionment based on No of employees)	1
Depreciation of Equipment (Correct apportionment based on value of equipment)	1
Correct total of Allocated and Apportioned	1
ii) Reapportionment using simultaneous equation method	
Formulation of equation (S equation and M equation)	1.5
Solving of equation	1.5
Complete reapportionment table	<u>2</u>
Maximum marks for part b	<u>10</u>
Total	<u>20 Marks</u>

MODEL ANSWER

4) a.

i) Current short fall in highly skilled labour

Labour Hours Available =		25,000				
Labour hours per unit =		A		B		C
	400/80 =	5	560/80 =	7	800/80 =	10
Labour Hours Needed =	(5 * 2,000) =	10,000	(7 * 3,000) =	21,000	(10 * 1,800) =	18,000
10,000 + 21,000 + 18,000 =						
	49,000	Hours				
Short fall = Hours Needed - Hours Available						
Short fall =	49,000 - 25,000 =					
	24,000	Hours				

ii) Optimal Production Plan

		A		B		C
Selling Price / Unit		2,500		3,200		4,600
Labour Cost	400		560		800	
Material Cost	700	1,100	1,100	1,660	1,550	2,350
Contribution / Unit		1,400		1,540		2,250
Hours /Unit		5		7		10
Contribution / Limiting Factor	1,400/5 =	280	1,540/7 =	220	2,250/10 =	225
Ranking		1st		3rd		2nd

Rank	Product	Demand	Hours Used	Hours Remaining	Optimal Production Plan
1st	A	2,000	(5*2,000) 10,000	(25,000 - 10,000) 15,000	2,000
2nd	C	1,800	15,000	-	15,000/10 = 1,500
3rd	B	3,000	-	-	-

Align the figures to the center of each cell.

Optimal Production plan is to produce 2,000 units of A and 1,500 units of C and 0 units of B

iii) Profit at the Optimal Production Plan

Profit = (Contribution /Unit * Optimal Plan) - Fixed Cost		
1st A =	2,000 units * 1,400 =	2,800,000
2nd C =	1,500 units * 2,250 =	3,375,000
Total Contribution		6,175,000
Less: Fixed Cost		4,500,000
Profit		1,675,000

4) b.

i) Allocation and Apportionment

Overhead Analysis Sheet						
Overhead	Basis of Apportionment	Total Amount	Production Department		Service Department	
			A	B	S	M
Indirect Labour		4,370,000	1,450,000	1,200,000	800,000	920,000
Rent	Floor Area	18,000,000	5,225,806	7,200,000	4,064,516	1,509,677
Heat & Light	Cubic Capacity	2,400,000	1,200,000	750,000	150,000	300,000
Welfare Cost	No of Employees	4,600,000	2,012,500	1,341,667	670,833	575,000
Depreciation of Equipment	Value of Equipment	2,000,000	444,444	888,889	296,296	370,370
Allocated & Apportioned Overheads		31,370,000	10,332,751	11,380,556	5,981,646	3,675,048

ii) Reapportionment of Overheads using Simultaneous Equation Method

	Production Department		Service Department	
	A	B	Stores	Maintanance
Allocated & Apportioned Overheads	10,332,751	11,380,556	5,981,646	3,675,048
Stores	50%	40%	—	10%
Maintanance	45%	50%	5%	—

Using service department formulate equations	
$S = 5,981,646 + 5\% \text{ of } M$	
$S = 5,981,646 + 0.05M$	(i)
$M = 3,675,048 + 10\% \text{ of } S$	
$M = 3,675,048 + 0.1S$	(ii)

Solve the equations	
$S = 5,981,646 + 0.05M$	(i)
$S = 5,981,646 + 0.05(3,675,048 + 0.1S)$	
$S = 5,981,646 + 183,752.4 + 0.005S$	
$S - 0.005S = 5,981,646 + 183,752.4$	
$0.995S = 6,165,398.4$	
$S = 6,165,398.4/0.995$	
S = 6,196,380.30	

$M = 3,675,048 + 0.1S$
$M = 3,675,048 + 0.1(6,196,380.302)$
$M = 3,675,048 + 619,638.03$
M = 4,294,686.03

	Production Department	Service Department		
	A	B	Stores	Maintanance
Allocated and Apportioned	10,332,751	11,380,556	5,981,646	3,675,048
Reapportion Stores	3,098,190.15	2,478,552.12	(6,196,380.30)	619,638.03
Reapportion Maintanance	1,932,608.71	2,147,343.02	214,734.30	(4,294,686.03)
Reapportioned Overheads	15,363,550	16,006,451	(0)	(0)

QUESTION FIVE

MARKING GUIDE

	<u>Marks</u>
(a) Value of closing inventory using weighted average method	
0.5 marks for each working (W1, W2, W3, W4) (0.5 * 4)	2
0.5 marks for each correct amount for receipts (0.5 * 6)	3
0.5 marks for each correct amount for issues (0.5 * 4)	2
0.5 marks for each correct amount for balances (0.5 * 12)	<u>6</u>
Maximum marks for part a	13
b) Stock levels	
i) Economic order quantity	
Application of formula	1
Correct answer	1
ii) Increase in order size	
Correct amount of increase in quantity	1
Application of formula	1
Explanation of the increase	1
iii) Number of orders	
Application of the formula	1
Correct number of orders	<u>1</u>
Maximum marks for part b	<u>7</u>
Total	<u>20 Marks</u>

MODEL ANSWER

Q5(a) Closing inventory valuation using the weighted average price method

Dates	Receipts/purchases			Issue/sales			Balances	
	Qty	Price	Amount	Qty	Price	Amount	Qty	Amount
1 st	-	-	-	-	-	-	1,000	250,000
1 st	2,000	250	500,000	-	-	-	3,000	750,000
3 rd	-	-	-	2,500	250	625,000	500	125,000
5 th	1,500	260	390,000	-	-	-	2,000	515,000
7 th	-	-	-	1,500	257.5	386,250	500	128,750
10 th	1,000	280	280,000	-	-	-	1,500	408,750
15 th	1,500	290	435,000	-	-	-	3,000	843,750
15 th	-	-	-	2,000	281.25	562,500	1,000	281,250
20 th	500	300	150,000	-	-	-	1,500	431,250
25 th	1,000	300	300,000	-	-	-	2,500	731,250
25 th	-	-	-	500	292.5	146,250	2,000	585,000
30 th	-	-	-	1,500	292.5	438,750	500	146,250

The closing inventory as at 30th September is 500 units valued at FRW 146,250

Workings

W1) Issue price on 3rd September = $750,000 / 3,000 = 250$

W2) Issue price on 7th September = $515,000 / 2,000 = 257.5$

W3) Issue price on 15th September = $843,750 / 3,000 = 281.25$

W4) Issue price on 25th September = $731,250 / 2,500 = 292.5$
 $= 585,000 / 2,000 = 292.5$

Q5b(i) Compute the economic order quantity

$$EOQ = \frac{\sqrt{(2 \times D \times CO)}}{\sqrt{Ch}}$$

$$\frac{\sqrt{(2 \times 2,400,000 \times 6,000)}}{\sqrt{(12\% (7,500))}}$$

$$= \sqrt{32,000,000}$$

$$= 5,657 \text{ units}$$

Q5b(ii) Explain what will happen to the ordering cost if the company increases the order

size by 25%

Ordering cost currently

$$\frac{\text{Annual demand} \times \text{cost per order}}{\text{EOQ}}$$

$$\frac{2,400,000 \times 6,000}{5,657}$$

FRW 2,545,519

If the order size is increased by 25%

$$25\% (5,657) = 1,414 \text{ units}$$

$$\text{New order size is } (5,657 + 1,414) = 7,071 \text{ units}$$

Ordering with a new order size will be

$$\frac{2,400,000 \times 6,000}{7,071}$$

Total ordering cost = FRW 2,036,487

Now what happens to the ordering cost annually is a reduction of $(2,545,519 - 2,036,487) = \text{FRW } 509,032$.

Whenever there is a reduction in the number of orders annually the total annually ordering cost reducing since there is a cost incurred for every order placed for delivery of materials.

Q5b(iii) How many orders will the company make annually if (ii) is adopted.

Number of orders = $\frac{\text{Annual demand}}$

Order size

$$= \frac{2,400,000}{7,071}$$

$$= 339.4 \text{ orders}$$

$$= 340 \text{ orders}$$

QUESTION SIX

MARKING GUIDE

	<u>Marks</u>
(a) Cost per unit using traditional method	
Prime cost (0.5 marks per product = (0.5 marks * 3))	1.5
Overhead cost per unit (0.5 marks per product = 0.5 marks * 3)	1.5
Cost per unit (0.5 marks per product = (0.5 marks * 3))	1.5
W1 apportionment using labour hours (0.5 marks per product = (0.5 marks * 3))	<u>1.5</u>
Maximum marks for part a	6
b) Steps followed in calculating cost per unit under ABC	
1 mark awarded forevery correct step (1*6)	<u>6</u>
Maximum marks for part b	6
c) Cost per unit under ABC	
Overhead cost per unit (0.5 marks per product = 0.5 marks * 3)	1.5
Cost per unit (0.5 marks per product = (0.5 marks * 3))	1.5
Machine hours apportionment (0.5 marks per product = 0.5 marks * 3)	1.5
Number of orders apportionment (0.5 marks per product = 0.5 marks * 3)	1.5
Number of set ups (0.5 marks per product = 0.5 marks * 3)	1.5
Prime cost	0.5
Maximum marks for part c	<u>8</u>
Total	<u>20 Marks</u>

MODEL ANSWER

a) Cost per unit : Traditional method of absorbing overheads on labour hour			
	<u>X</u>	<u>Y</u>	<u>Z</u>
	<u>FRW</u>	<u>FRW</u>	<u>FRW</u>
Direct materials cost per unit	100.00	80.00	60.00
Direct labour cost per unit	80.00	60.00	45.00
Prime cost per unit	180.00	140.00	105.00
Overhead cost per unit (W1)	72.50	54.38	90.63
Cost per unit	<u>252.50</u>	<u>194.38</u>	<u>195.63</u>

Workings						
W1) Overhead cost per unit using Traditional method of absorbing using labour hours						
	<u>X</u>	<u>Y</u>	<u>Z</u>	<u>Total</u>		
Labour hours per unit	8	6	10			
Production units	125,000	80,000	60,000	265,000		
Total labour hours	1,000,000	480,000	600,000	2,080,000		
Total production overhead cost	18,850,000					
Apportionment of total overhead cost:				Overhead Cost	Units	Overhead per unit
Product X =	$(1,000,000 / 2,080,000) * 18,850,000 =$			9,062,500	125,000	72.50
Product Y =	$(480,000 / 2,080,000) * 18,850,000 =$			4,350,000	80,000	54.38
Product Z =	$(600,000 / 2,080,000) * 18,850,000 =$			5,437,500	60,000	90.63
				18,850,000		

c) Cost per unit: Activity Based Costing Method			
	<u>X</u>	<u>Y</u>	<u>Z</u>
	<u>FRW</u>	<u>FRW</u>	<u>FRW</u>
Direct materials cost per unit	100.00	80.00	60.00
Direct labour cost per unit	80.00	60.00	45.00
Prime cost per unit	180.00	140.00	105.00
Overhead cost per unit (W2)	-	-	-
Cost per unit	180.00	140.00	105.00

W2) Overhead cost per unit using Activity based costing method

Apportionment of overhead costs									
Cost pool	Cost driver		Total Amount		X FRW		Y FRW		Z FRW
Machining cost	Machine hours	$(50\% * 18,850,000)$	9,425,000	$(350/700)*9,425,000 =$	4,712,500.00	$(200/700)*9,425,000 =$	2,692,857.14	$(150/700)*9,425,000 =$	2,019,642.86
Material handling costs	No of orders	$(30\% * 18,850,000)$	5,655,000	$(180/420)*5,655,000 =$	2,423,571.43	$(140/420)*5,655,000 =$	1,885,000.00	$(100/420)*5,655,000 =$	1,346,428.57
Set up cost	No of set ups	$(20\% * 18,850,000)$	3,770,000	$(120/280)*3,770,000 =$	1,615,714.29	$(100/280)*3,770,000 =$	1,346,428.57	$(60/280)*3,770,000 =$	807,857.14
Total overhead costs			18,850,000		8,751,785.71		5,924,285.71		4,173,928.57
Production units					125,000.00		80,000		60,000
Overhead cost per unit					70.01		74.05		69.57

Analysis of cost drivers	<u>X</u>	<u>Y</u>	<u>Z</u>	<u>Total</u>
Machine hours (000)	350	200	150	700
Number of orders	180	140	100	420
Number of set ups	120	100	60	280

QUESTION SEVEN

MARKING GUIDE

	<u>Marks</u>
(a) Process Accounts using Weighted Average Cost Method	
i) Statement of equivalent units	
Correct output units	0.5
Correct closing work in progress	0.5
Correct abnormal loss	0.5
Total equivalent units	0.5
ii) Statement of cost per unit	
Total amount	1
Total equivalent units	0.5
cost per unit	0.5
iii) Value of output	
Output units	0.5
Cost per unit	0.5
Total value of output	1
iv) Value of closing inventory	
Closing inventory units	0.5
Cost per unit	0.5
Total value of closing inventory	1
v) Value of abnormal loss	
Abnormal loss units	0.5
Cost per unit	0.5
Total value of Abnormal loss	1
vi) Process two account	
Correct format	1
Normal loss	1
Abnormal loss	0.5
Closing WIP	0.5
Opening WIP	0.5
Balancing of accounts	<u>0.5</u>
Maximum marks for part a	14
b) Explanation of three characteristics of process costing	
2 marks awarded for each correct characteristic explained	<u>6</u>
Maximum marks for part b	<u>6</u>
Total	<u>20 Marks</u>

MODEL ANSWER

7) a.

i) Statement of Equivalent Units-You said your answers should be to two decimal places-refer question paper. Please rectify.

	Output Units	Closing WIP Completed	Abnormal Loss Units	Total Equivalent Units
Materials	5,000	1,980	100	7,080
Added Materials	5,000	1,650	100	6,750
Conversion	5,000	1,320	100	6,420

ii) Statement of Cost per Unit

	Total Amount	Total Equivalent Units	Cost per Unit
Materials	46,150,000	7,080	6,518.36
Added Materials	10,800,000	6,750	1,600.00
Conversion	13,800,000	6,420	2,149.53

iii) Value of Output

	Output Units	Cost per Unit	Total Amount
Materials	5,000	6,518.36	32,591,808
Added Materials	5,000	1,600.00	8,000,000
Conversion	5,000	2,149.53	10,747,664
			<u>51,339,471</u>

iv) Value of Closing Inventory

	Closing WIP Completed	Cost per Unit	Total Amount
Materials	1,980	6,518.36	12,906,356
Added Materials	1,650	1,600.00	2,640,000
Conversion	1,320	2,149.53	2,837,383
			<u>18,383,739</u>

v) Value of Abnormal Loss

	Abnormal Loss Units	Cost per Unit	Total Amount
Materials	100	6,518.36	651,836
Added Materials	100	1,600.00	160,000
Conversion	100	2,149.53	214,953
			<u>1,026,789</u>

vi) Process Account

Dr				Process Two a/c				Cr			
Particulars	Units	Price/Unit	Amount	Particulars	Units	Price/Unit	Amount	Particulars	Units	Price/Unit	Amount
Opening WIP	1,600		12,600,000	Normal Loss	300	1,500	450,000				
Materials	6,000		37,200,000	Output	5,000		51,339,471				
Added Materials	-		9,600,000	Closing WIP	2,200		18,383,739				
Conversion	-		11,800,000	Abnormal Loss	100		1,026,789				
	<u>7,600</u>		<u>71,200,000</u>		<u>7,600</u>		<u>71,200,000</u>				

7) b. Explain any three characteristics of process costing

1. Output in one process is input to the next process until the finished product is fully complete.
2. The continuous nature of production processes means that there is closing work in progress which must be valued.
3. Output may be in the form of main product, joint products or even by- products.
4. There are often normal or abnormal losses as a result of the production processes caused by spillage, wastage, spoilage.

End of marking guide and model answers