



CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 2 EXAMINATIONS
F2.1: MANAGEMENT ACCOUNTING
DATE: WEDNESDAY 27, AUGUST 2025

F2.1 AUGUST 2025 MARKING GUIDE AND MODEL ANSWERS

QUESTION ONE

Marking Guide

SN	Criteria	Marks
a)		
i	Preparation of Stock Ledger Card: LIFO Method	
	Receipts: award 0.5 marks for every correct issue posting (0.5*5)	2.5
	Issues: award 0.5 marks for every correct issue posting (0.5*8)	4
	Balance: award 0.5 mark for the correct value of closing inventory	<u>0.5</u>
		7
ii	Calculation of Gross Profit	
	Award 1 mark for correct calculation of sales	1
	Award 1 mark for correct calculation of Cost of sales	1
	Award 1 mark for correct gross profit answer	<u>1</u>
		<u>3</u>
	Maximum marks awarded for part a	10
b)	Desirable Qualities of Management Accounting Information	
	0.5 marks awarded for every correct point listed (0.5*6)	3
	0.5 marks awarded for every correct explanation made per point (0.5*6)	<u>3</u>
	Maximum marks awarded for part b	6
c)	Calculation of Economic Batch Quantity	
	Correct formula	1
	Correct Demand	0.5
	Correct Holding Cost per unit	0.5
	Correct Cost per setup	0.5
	Correct annual replenishment rate	0.5
	Correct answer	<u>1</u>
	Maximum marks awarded for part b	<u>4</u>
	Total Marks for Question One	<u>20</u>

Model Answers

a) Material Issue (Stock Valuation)

i) Stock Ledger Card: LIFO

Date	Details	Receipts			Issues			Balance	
		QTY	PU	Amount	QTY	PU	Amount	QTY	Amount
1/06	Op Inventory							800	3,360,000
5/06	Purchases	1,200	4,500	5,400,000				2,000	8,760,000
8/06	Purchases	500	4,700	2,350,000				2,500	11,110,000
14/06	Sales				500	4,700	2,350,000	2,000	8,760,000
					1,200	4,500	5,400,000	800	3,360,000
					450	4,200	1,890,000	350	1,470,000
19/06	Purchases	1,000	4,800	4,800,000				1,350	6,270,000
22/06	Purchases	1,500	4,900	7,350,000				2,850	13,620,000
26/06	Sales				1,500	4,900	7,350,000	1,350	6,270,000
					1,000	4,800	4,800,000	350	1,470,000
					120	4,200	504,000	230	966,000
30/06	Purchases	1,500	5,000	7,500,000				1,730	8,466,000
30/06	Sales				1,500	5,000	7,500,000	230	966,000
					100	4,200	420,000	130	546,000

ii) Gross Profit for the Month of June

Gross profit= sales-cost of sales

Cost of sales = opening inventory + purchases- closing inventory

1. Sales				<u>FRW</u>
14th June	Sales	2,150	6,200	13,330,000
26th June	Sales	2,620	6,500	17,030,000
30th June	Sales	1,600	6,700	<u>10,720,000</u>
	Total Sales			41,080,000
2. Opening Inventory				3,360,000
3. Purchases				<u>FRW</u>
5th June	Purchases	1,200	4,500	5,400,000
8th June	Purchases	500	4,700	2,350,000
19th June	Purchases	1,000	4,800	4,800,000
22nd June	Purchases	1,500	4,900	7,350,000
30th June	Purchases	1,500	5,000	<u>7,500,000</u>
	Total purchases			27,400,000
4. Closing Inventory				546,000
5. Gross profit= sales- (opening inventory + purchases-closing inventory)				10,866,000

b) Explain six desirable qualities of management accounting information

Relevance: The information must be relevant for the purpose for which the manager wants to use it.

- **Accuracy:** The information should be sufficiently accurate for the intended purpose. Incorrect information could have serious and damaging consequences.
- **Timing:** The information must be produced in time for it to be used effectively. Information which is not available until after decision is made will be useful only on comparison and long-term control, and may serve no purpose even then.
- **Understandability:** The information must be capable of being understood by the recipient. The information must be clear to the user.
- **Volume/Details:** The number of details in a statement or report will depend on the recipient level in the organization. Reports to the management must therefore be clear and concise.
- **Completeness:** An information user should have all the information he needs to do his job properly.
- **Communication:** Within any organization, individuals are given the authority to do certain tasks, and they must be given the information they need to do them. Budget must be provided to the managers so as to assist him in controlling the expenditures in his office.
- **Channel of communication:** There are occasions when using one particular method of communication will be better than others. The channel of communication might be the company's in-house journal, a national or local newspaper, a professional magazine, a job centre or school careers office.
- **Cost:** Information should have some value, otherwise it would not be worth the cost of collecting and filing it. The benefits obtained from the information must also exceed the costs of acquiring it, and whenever management is trying to decide whether or not to produce information for a particular purpose a cost/benefit analysis ought to be made.

c) Economic Batch Quantity

$$\text{Formula for EBQ} = \sqrt{\frac{2DS}{H} \cdot \frac{P}{P-d}}$$

Where:

D is Annual demand (units) = 50,000

S is Setup cost per batch (Frw) = 9,200

H is Holding cost per unit per year (10% of FRW 8,000 = FRW 800) = Frw 800

P is Production rate (replenishment rate) (200,000 units/year) = 200,000 units

d is Demand rate (50,000 units/year) = 50,000 units

Step1: Compute the basic EOQ part = $\frac{2DS}{H} = \frac{2 \times 50,000 \times 9,200}{800} = 1,150,000$

Step2: Compute the adjustment factor for production = $\frac{P}{P-p} = \frac{200,000}{200,000-50,000} = \frac{200,000}{150,000} = \frac{4}{3}$

Step3: Combine both parts:

$$\text{EBQ} = \sqrt{1,150,000 \times \frac{4}{3}} = \sqrt{1,533,333.33} = 1,238.52 \text{ Units}$$

QUESTION TWO

Marking Guide

SN	Criteria	Marks
a)		
i	Depreciation per period	
	Award 1 mark for depreciation of year 1	1
	Award 1 mark for depreciation of year 2	<u>1</u>
		2
ii	Net Book Value	
	Award 1 mark for net book value of year 1	1
	Award 1 mark for net book value of year 2	<u>1</u>
		2
iii	Profit or Loss on Disposal	
	Award 1 mark for the difference between disposal and net book value	1
	Award 1 mark for correct final answer	<u>1</u>
		2
	Maximum marks awarded for part a	6
b)		
i	Calculation of Overhead Absorption Rate	
	Award 1 mark for correct calculation of Department X	1
	Award 1 mark for correct calculation of Department Y	<u>1</u>
		2
ii	Calculation of Overhead Absorbed	
	Award 1 mark for correct calculation of Department X	1
	Award 1 mark for correct calculation of Department Y	<u>1</u>
		2
iii	Calculation of Over or Under Absorption	
	Award 1 mark for correct calculation of Department X	1
	Award 1 mark for correct calculation of Department Y	<u>1</u>
		2
	Maximum marks awarded for part a	6
c)	Explanation of Objectives of a good accounting system	
	1 mark awarded for every correct point listed (1*4)	4
	1 mark awarded for every correct explanation made per point (1*4)	<u>4</u>
	Maximum marks awarded for part c	8
	Total Marks awarded for Question Two	20

Model Answers

a) Capital Equipment

i) Depreciation per period: Reducing Balance

1st Year	560,000,000	*20%	112,000,000
2nd year	560 - 112	*20%	89,600,000

ii) Net Book Value: 30th June, 2025

	Cost	Acc Dep	Net Book Value
30th June, 2024	560,000,000	112,000,000	448,000,000
30th June, 2025	560,000,000	201,600,000	358,400,000

iii) Profit or Loss on Disposal

Net Book Value	358,400,000
Disposal Proceeds	<u>390,000,000</u>
Profit	<u>31,600,000</u>

b) Overhead Absorption

i) Overhead Absorption Rate = $\frac{\text{budgeted overhead}}{\text{Budgeted activity}}$

	<u>Department X</u>	<u>Department Y</u>
Budgeted Overhead	<u>12,000,000</u>	<u>6,500,000</u>
Budgeted Activity	18,000	10,000
	666.67	650
	FRW 666.67 per labour hour	FRW 650 per machine hour

ii) Overhead Absorbed= OAR*actual activity

Dept		FRW
Department X =	666.67 * 18,500	12,333,333
Department Y =	650 * 11,200	7,280,000

iii) Over or Under Absorption of Overheads

Over/Under Absorption = Overhead Absorbed - Actual Overhead Expenditure

Department X	<u>FRW</u>
Overhead Absorbed =	12,333,333
Less: Actual Overhead Expenditure =	<u>12,800,000</u>
Under Absorbed	466,667

Department Y	FRW
Overhead Absorbed	7,280,000
Less: Actual Overhead Expenditure	5,600,000
Over Absorbed	1,680,000

c) Objectives of a good cost accounting system

- **Cost Control:** This will be assisted by: Finding out the cost of each product (or service), process and department-costs must be ascertained in phase with manufacturing activity, enabling remedial action to be taken quickly when it is required. Comparing the costs with budget, standard or past performance figures to indicate the degree of efficiency attained. Analyzing the variances from budget and identifying the person or department responsible so that prompt, remedial action may be taken. Disclosing to what extent production facilities are used and indicating the amount and cost of idle and waiting time. Presenting the information suitably to management in such a form as to guide them in taking any necessary action.
- **Advise to management in the formulation of policy:** This will include: Provision of information to assist in the regulation of production and the systematic control of the organisation. Provision of special investigations and reports. These might deal with such matters as: Whether to manufacture apart or to sub-contract another firm. The advisability of installing new machinery. The effect of increased or reduced production volumes on profitability.
- **Advise on the effects of management policy:** This will be disclosed through reports. Both regular reports and special investigations.
- **Estimating and price fixing:** Figures will be provided from standards or past results as the basis for future estimates. Cost is an important factor in price fixing, but it is not the only one. Demand and competitive activity are also crucial. Therefore, a firm's profitability may depend largely on its ability to control costs.

QUESTION THREE

Marking Guide

SN	Criteria	Marks
a)		
i	Calculation of Total Cost	
	Award 1 mark for prime cost calculation	1.0
	Award 1 mark for marginal cost calculation	1.0
	Award 1 mark for absorption cost calculation	1.0
	Award 1 mark for total cost calculation	<u>1.0</u>
		4.0
ii	Calculation of Total Revenue	
	Award 1 mark for conversion of margin to mark up	1.0
	Award 1 mark for correct answer	<u>1.0</u>
		2.0
iii	Calculation of cost per occupied room	
	Award 0.5 marks for total rooms in a year	0.5
	Award 0.5 marks for total occupied rooms in a year	0.5
	Award 1 mark for correct answer (division)	<u>1.0</u>
		2.0
iv	Calculation of rate to be charged	
	Award 1 mark for division	1.0
	Award 1 mark for correct answer	<u>1.0</u>
		<u>2.0</u>
	Maximum marks awarded for part a	10.0
b)	Explanation of types of stock taking	
	1 mark awarded for every correct point listed (1*2)	2.0
	1 mark awarded for every correct explanation made per point (1*2)	<u>2.0</u>
	Maximum marks awarded for part b	4.0
c)	Advantages of budgetary control systems	
	0.5 marks awarded for every correct point listed (0.5*6)	3.0
	0.5 marks awarded for every correct explanation made per point (0.5*6)	<u>3.0</u>
	Maximum marks awarded for part c	6.0
	Total Marks awarded for Question Three	20.0

Model Answers

a) Service Costing

i) Total Cost incurred by the Hotel

Details	<u>FRW</u>
Materials: Food	44,000,000
Materials: Beverages	15,920,000
Salaries to all Staff	60,000,000
Maintenance costs	6,000,000
Cleaning Costs	12,000,000
Rent (50% * 45,000,000)	<u>22,500,000</u>
Prime Cost	160,420,000
Water Bill: Variable Overheads	<u>3,800,000</u>
Marginal Cost	164,220,000
Booking Site: Fixed Production	<u>8,600,000</u>
Absorption Costs	172,820,000
Rent (50% * 45,000,000)	22,500,000
Security Costs	3,650,000
Internet Costs	4,750,000
Electricity Costs	8,200,000
Other Utilities	<u>2,680,000</u>
Total Cost Incurred	<u>214,600,000</u>

ii) Total Revenue generated

Details		<u>FRW</u>
Total Cost		214,600,000
Add: Profit Mark up	$20/100 - 20 = 20/80 * \text{Cost}$	<u>53,650,000</u>
Total Revenue		<u>268,250,000</u>

iii) Cost per occupied room

Total Cost (FRW)		214,600,000
Rooms	64	
Days	<u>365</u>	
Total Rooms = $64 * 365 =$	23,360.00	
% Occupancy =	80%	
Total Occupied Rooms	$23,360 * 80\%$	18,688
Cost per Occupied Room (FRW) =	$214,600,000 / 18,688$	11,483.30

iv) **Rate to be charged by the Hotel**

Rate per Room = Total Revenue / Occupied Rooms

Total Revenue		268,250,000
Occupied Rooms		18,688
Rate per Room (FRW)	268,250,000 / 18,688	14,354.13

b) **Types of Stock Taking**

- **Periodic Stock Taking:** The physical counting of stock on the last day of a given period. All operations must stop the stock is being counted. All employees are involved in counting.
- **Continuous Stock Taking:** Stock taking done on a rotating basis. At least each group of stock must be counted at least once in a given period. Skilled stock takers are used. Operations do not stop when counting is going on.

c) **Advantages of Budgetary Control System**

- **Agreed Targets:** Budgets establish targets for each aspect of a company's operations. These targets are set in conjunction with each manager. In this way managers are committed to achieving their budgets. This commitment also acts as a motivator.
- **Problems Identified:** Budgets systematically examine all aspects of the business and identify factors that may prevent a company achieving its objectives. Problems are identified well in advance, which in turn allows a company to take the necessary corrective action to alleviate the difficulty. For example, a budget may indicate that the company will run short of cash during the winter period because of the seasonal nature of the service being provided. By anticipating this position, the company should be able to take corrective action or arrange additional financing.
- **Scope for Improvement Identified:** Budgets will identify all those areas that can be improved, thereby increasing efficiency and profitability. Positive plans for improving efficiency can be formulated and built into the agreed budget. In this way a company can ensure that its plans for improvement are actually implemented.
- **Improved Co-ordination:** All managers will be given an outline of the company's objectives for the following year. Each manager will then be asked to formulate their own plans so as to ensure that the company's overall objectives are achieved.
- All the managers' plans will be combined and evaluated so that a total budget for the company can be prepared. During this process the company will ensure that each individual plan fits in with the company's overall objectives.
- **Control:** It is essential for a company to achieve, if not exceed, its budget. Achievement of budget will be aided by the use of a budgetary control system which constantly monitors actual performance against the budget. All variances will be monitored and positive action taken in order to correct those areas of the business that are failing to perform.
- **Raising Finance:** Any provider of finance will want to satisfy itself that the company is being managed correctly and that a loan will be repaid and interest commitments honoured. The fact that a company has established a system of budgetary control will help to demonstrate that it is being managed correctly. The budget will also show that the company is able to meet all its commitments

QUESTION FOUR

Marking Guide

SN	Criteria	Marks
a)		
i	Sales Volume Variance	
	Award 1 mark for application of correct formula	1.0
	Award 0.5 marks for correct answer	0.5
	Award 0.5 marks for correct interpretation whether favorable or adverse	<u>0.5</u>
		2.0
ii	Material Price Variance	
	Award 1 mark for application of correct formula	1.0
	Award 0.5 marks for correct answer	0.5
	Award 0.5 marks for correct interpretation whether favorable or adverse	<u>0.5</u>
		2.0
iii	Labour Rate Variance	
	Award 1 mark for application of correct formula	1.0
	Award 0.5 marks for correct answer	0.5
	Award 0.5 marks for correct interpretation whether favorable or adverse	<u>0.5</u>
		2.0
iv	Variable Overhead Expenditure Variance	
	Award 1 mark for application of correct formula	1.0
	Award 0.5 marks for correct answer	0.5
	Award 0.5 marks for correct interpretation whether favorable or adverse	<u>0.5</u>
		2.0
v	Fixed Overhead Expenditure Variance	
	Award 1 mark for application of correct formula	1.0
	Award 0.5 marks for correct answer	0.5
	Award 0.5 marks for correct interpretation whether favorable or adverse	<u>0.5</u>
		2.0
	Maximum marks awarded for part a	10.0
b)	Alignment of public sector budget with citizens priority	
	Award 1 mark for each correct point listed (1*3)	3.0
	Award 1 mark for each explanation of point listed (1*3)	<u>3.0</u>
	Maximum marks awarded for part b	6.0
c)	Explanation of prime costs and overheads giving examples	
	Award 1 mark each for clear explanation (1*2)	2.0
	Award 1 mark each for correct examples	<u>2.0</u>
	Maximum marks awarded for part c	4.0
	Total Marks awarded for Question Four	20.0

Model Answers

a) Variances

i) Sales Volume Variance under Absorption Costing

SVV (AC) = (Budgeted Quantity - Actual Quantity) * Budgeted Profit per Unit

Budgeted Quantity	5,000	Units	
Actual Quantity	5,200	Units	
Budgeted profit	Total Revenue - Total Cost		
Profit = 36M - (12M+8M+4.2M+6M)		5,800,000	
Profit per Unit	Profit /Units		
Profit per Unit	5.8M / 5,000	1,160	
SVV = (5,000 - 5,200) * 1,160		232,000	Favorable

ii) Material Price Variance

MPV = (Budgeted Price/kg - Actual Price/kg) * Actual Quantity			
Budgeted Price per kg	12,000,000/40,000	300	
Actual Price per kg	12,870,000/39,600	325	
Actual Quantity		39,600	
MPV = (300 - 325) * 39,600		990,000	Adverse

iii) Labour Rate Variance

LRV = (Budgeted Rate - Actual Rate) * Actual Hours			
Budgeted Rate/Hour	8M/15,000 =	533.33	
Actual Rate/Hours	6.85M/18,200 =	376.37	
Actual Hours		18,200.00	
LRV = (533.33 - 376.37) * 18,200 =		2,856,666.67	Favorable

iv) Variable Overhead Expenditure Variance

VOH Exp V = (Budgeted Rate/hr - Actual Rate/hr) * Actual Hours			
Budgeted Rate/hr	4,200,000 / 15,000	280	
Actual Rate/hr	4,420,000/18,200	242.86	
Actual Hours		18,200	
VOHExpV = (280 - 242.86) * 18,200 =		676,000	Favorable

v) Fixed Overhead Expenditure Variance

FOHExpV = Budgeted Fixed Overhead Expenditure - Actual Fixed Overhead Expenditure			
Budgeted Fixed Overhead Expenditure =		6,000,000	
Actual Fixed Overhead Expenditure =		<u>6,200,000</u>	
Fixed Overhead Expenditure Variance =		<u>200,000</u>	Adverse

b) Explain three ways in which the Public Sector Budget Officer ensure that the public sector budget aligns with Citizen priorities

- **Needs Assessment:** Does the budget address the most pressing needs of the community, such as healthcare, education, infrastructure, and social welfare?
- **Public Input:** How much opportunity do citizens have to participate in the budget process, from identifying priorities to monitoring implementation?
- **Equity and Fairness:** Does the budget allocate resources equitably across different geographic areas and socioeconomic groups?
- **Service Delivery:** Does the budget ensure adequate funding for essential public services, and are these services accessible to all citizens?

c)Classification of Costs

- **Prime Costs:** These are direct costs. Costs that are traceable to a specific cost unit. Example: Timber as a direct material used to make chairs.
- **Overheads:** These are indirect costs. Costs not traceable to a specific cost unit. Example: salary to the Human Resource Manager in a company making chairs.

QUESTION FIVE

Marking Guide

SN	Criteria	Marks
a)	Five factors to be considered before outsourcing	
	Award 0.5 marks for each clear point listed (0.5*5)	2.5
	Award 0.5 marks for each point clearly explained (0.5*5)	<u>2.5</u>
	Maximum marks awarded for part a	5.0
b)	Report to management on the financial position in terms of contribution	
	Award 1 mark for calculation of contribution for each dept (1*3)	3.0
	Award 1 mark for each point explained (1*4) max of 4 points awarded	<u>4.0</u>
	Maximum marks awarded for part b	7.0
c)		
i	Difference between incremental and zero-based budget	
	Award 1 mark for clear explanation of incremental budget	1.0
	Award 1 mark for clear explanation of zero-based budget	<u>1.0</u>
		2.0
ii	Stages involved in preparation of zero-based budget	
	Award 1 mark for each stage correctly listed (1*3)	3.0
	Award 1 mark for each stage correctly explained (1*3)	<u>3.0</u>
		6.0
	Maximum marks awarded for part c	8.0
	Total Marks awarded for Question Five	20.0

Model Answers

a) Factors to be considered before Outsourcing

Before outsourcing, it's crucial to consider several factors to ensure a successful and beneficial arrangement.

- **Quality:** The outsourcing provider should have the necessary expertise and experience to provide a satisfactory product or service. The business must get the assurance that the service provided will be of the right standard.
- **Continuity of Supply:** The business must be assured that the firm outsourced to has capacity to continue offering the product or service. The performance of the business must be assessed to ensure that there is going concern which provides assurance of continuity in operation.
- **Usage of freed up capacity:** The business must make a decision in advance where the current resources will be transferred to or taken once the outsourcing is done. If retrenchment is to be done, there is a cost to it and the business must be prepared to meet that cost.
- **Fixed price consideration:** The business must be assured that the firm outsourced to will not change their prices soon after the contract is signed. If the change in prices is necessary in future the contract should specify the terms of the changes and when appropriate.
- **Effect on labour morale:** When current employees who will be affected by the outsourced service in the future realize that there is outsourcing to be done, it may significantly affect their moral or motivation to work. There must be a clear plan and communication on how the business will absorb or manage the current employees to be affected by outsourcing.

b) Report for management including a restatement of the financial position in terms of contribution made by each department and making a clear recommendation.

Details	Department X	Department Y	Department Z
Sales (FRW)	316,000,000	300,000,000	184,000,000
Direct Materials (FRW)	-100,000,000	-150,000,000	-150,000,000
Direct Labour (FRW)	-10,000,000	-25,000,000	-25,000,000
Production Overheads (FRW)	<u>-15,000,000</u>	<u>-10,000,000</u>	<u>-5,000,000</u>
Contribution	<u>191,000,000</u>	<u>115,000,000</u>	<u>4,000,000</u>

As Department Z makes a positive contribution it should not be closed down

Shut down of department Z will result into

- Loss of contribution of FRW 4,000,000 from the department
- Savings in specific fixed costs from closure
- Penalties resulting from the closure, e.g. redundancy, compensation to customers
- Alternative use for resources released
- Knock-on impact, e.g. loss leaders cancelled - products that got customers into the store

c)

i. Explain the difference between Incremental budgets and zero-based budgets

- **Incremental Budgeting:** A budget that is prepared based on the current period's results plus an extra amount for estimated growth or inflation in the next year. This budget is a reasonable procedure if current operations are as effective, efficient and economical as they can be.
- **Zero Based Budgeting:** Involves preparing a budget for each cost centre from a zero base. Every item in the expenditure must be justified in its entirety in order to be included in the next periods budget.

ii. Explain the 3 stages involved in preparation of Zero-Based Budget

ZBB involves 3 main stages

- **Stage 1: Define Activities (decision packages):** At the first stage, management identify the key activities within the organization. These activities are described within a decision package. The decision package is originally prepared at a base level which shows the minimum level of resources required to meet the organization objectives. Incremental packages may be prepared to show any additional work that could be done, at what cost and for what benefit.
- **Stage 2: Evaluate and rank each activity:** Management will then rank each activity (decision package) on the basis of its benefit to the organization. Minimum work requirements will be given high priority and so to will be work which meets legal obligations. This process will help management to decide what to spend and where to spend it.
- **Stage 3: Allocate Resources:** At the final stage, management allocate resources in the budget according to the funds available and the evaluation and ranking of the competing packages.

QUESTION SIX

Marking Guide

SN	Criteria	Marks
a)	Preparation of marginal costing profit statement	
	For each month award the marks as follows	
	Award 1 mark for correct sales computation (1*2)	2.0
	Award 1 mark for calculation of variable cost of sales (1*2)	2.0
	Award 1 mark for correct calculation of contribution (1*2)	2.0
	Award 0.5 marks for correct accounting of each fixed cost (0.5*3*2)	3.0
	Award 1 mark for correct calculation of MC profit (1*2)	2.0
	Award 0.5 marks each for correct format (0.5*2)	<u>1.0</u>
	Maximum marks awarded for part a	12.0
b)		
i	Statement of equivalent units	
	Award 1 mark for correct computation of total equivalent units materials	1.0
	Award 1 mark for correct computation of total equivalent units conversion	<u>1.0</u>
		2.0
ii	Statement of cost per unit	
	Award 1 mark for correct computation of cost per unit for materials	1.0
	Award 1 mark for correct computation of cost per unit for conversion	<u>1.0</u>
		2.0
iii	Value of closing work in progress	
	Award 1 mark for correct computation of value of CWIP materials	1.0
	Award 1 mark for correct computation of value of CWIP conversion	<u>1.0</u>
		2.0
iv	Value of output	
	Award 1 mark for correct computation of value of output materials	1.0
	Award 1 mark for correct computation of value of output conversion	<u>1.0</u>
		2.0
	Maximum marks awarded for part b	8.0
	Total Marks awarded for Question Six	20.0

Model Answers

a) Marginal Costing Profit Statement

Marginal Costing Profit Statement for the Month of May, 2025			
		<u>FRW</u>	<u>FRW</u>
Sales	(1,700*26,000)		44,200,000
<u>Variable Cost of Sales</u>			
Opening Inventory	(200*20,700)	4,140,000	
Add: Production	(2,000*20,700)	41,400,000	
Less: Closing Inventory	(500*20,700)	(10,350,000)	<u>(35,190,000)</u>
Contribution			9,010,000
Less: Fixed Costs:			
Fixed Production Cost		4,200,000	
Fixed Administration Costs		1,800,000	
Fixed Distribution Costs		800,000	<u>(6,800,000)</u>
Marginal Costing Profit			<u>2,210,000</u>

Marginal Costing Profit Statement for the Month of June, 2025			
		<u>FRW</u>	<u>FRW</u>
Sales	(2,300*26,000)		59,800,000
<u>Variable Cost of Sales</u>			
Opening Inventory	(500*20,700)	10,350,000	
Add: Production	(2,000*20,700)	41,400,000	
Less: Closing Inventory	(200*20,700)	(4,140,000)	<u>(47,610,000)</u>
Contribution			12,190,000
Less: Fixed Costs:			
Fixed Production Cost		4,200,000	
Fixed Administration Costs		1,800,000	
Fixed Distribution Costs		800,000	<u>(6,800,000)</u>
Marginal Costing Profit			<u>5,390,000</u>

Variable Cost per unit

	<u>FRW</u>
Direct Material Cost/Unit	13,500
Direct Labour Cost/Unit	6,000
Variable Production Overhead Cost/unit	1,200
	<u>20,700</u>

b) Process Costing Using AVCO**i)Statement of Equivalent Units**

	Output Units	Closing WIP Completed	Total Equivalent Units
Materials	5,600	1,600	7,200
Conversion	5,600	1,200	6,800

ii)Statement of Cost per Unit

	Total Amount	Total Equivalent Units	Cost per Unit
Materials	27,500,000	7,200	3,819.44
Conversion	25,600,000	6,800	3,764.71

iii)Value of Closing Work in Progress

	Units	Cost per Unit	Amount
Materials	1,600	3,819.44	6,111,111.11
Conversion	1,200	3,764.71	4,517,647.06
	Value of Closing WIP		10,628,758.17

iv)Value of Output

	Units	Cost per Unit	Amount
Materials	5,600	3,819.44	21,388,888.89
Conversion	5,600	3,764.71	21,082,352.94
	Value of Output		42,471,241.83

QUESTION SEVEN

Marking Guide

SN	Criteria	Marks
a)		
i	Break-even point	
	Award 1 mark for clear explanation of the point	1.0
ii	Margin of Safety	
	Award 1 mark for clear explanation of the point	1.0
i	Contribution	
	Award 1 mark for clear explanation of the point	<u>1.0</u>
	Maximum marks awarded for part a	3.0
b)		
i	Contribution to sales ratio	
	Award 1 mark for correct application of formula	1.0
	Award 1 mark for correct answer	<u>1.0</u>
		2.0
ii	Break-even point in units	
	Award 1 mark for correct application of formula	1.0
	Award 1 mark for correct answer	<u>1.0</u>
		2.0
iii	Break-even point in FRW	
	Award 1 mark for correct application of formula	1.0
	Award 1 mark for correct answer	<u>1.0</u>
		2.0
iv	Margin of safety in units	
	Award 1 mark for correct application of formula	1.0
	Award 1 mark for correct answer	<u>1.0</u>
		2.0
v	Margin of safety in %	
	Award 1 mark for correct application of formula	1.0
	Award 1 mark for correct answer	<u>1.0</u>
		2.0
v	Sales units to achieve target profit	
	Award 1 mark for correct application of formula	1.0
	Award 1 mark for correct answer	<u>1.0</u>
		2.0
	Maximum marks awarded for part b	12.0
c	Five assumptions of marginal costing	
	Award 1 mark for each clear explanation (1*5)	5.0
	Maximum marks awarded for part c	
	Total Marks awarded for Question Seven	20

Model Answers

a) Explanation of terms as used in Cost, Volume, Profit Analysis

- i) **Break Even Point:** The point where the business makes no profit nor loss. The point where total costs are equal to total revenue.
- ii) **Margin of Safety:** The number of units by which sales must drop before the business makes a loss. The excess units over the break-even point
- iii) **Contribution:** The difference between sales and variable cost of sales.

b) Computation

i) **Contribution to Sales ratio**= $\frac{\text{selling price/unit}-\text{variable cost/unit}*100}{\text{Selling price/unit}}$

- Variable cost per unit= 2,500+2,100+1,400= 6,000
- C/S Ratio= $\frac{(10,000-6,000)}{10,000} * 100$
- C/S Ratio= 40%

ii) **Break Even Point in units**= $\frac{\text{Fixed cost}}{\text{Selling Price/unit}- \text{Variable cost/unit}}$

- BEP in units= $\frac{28,000,000}{(10,000-6,000)}$
- BEP in units= 7,000 units

iii) Break Even Revenue (FRW)

- BEP in FRW= BEP in units * selling price/unit
- BEP in FRW= 7,000 units * 10,000= 70,000,000 FRW

iv) Margin of Safety in units

MOS (units)= Target sales units- BEP units
=12,000 units-7,000 units= 5,000 units

v) Margin of Safety as a percentage

MOS%= $\frac{\text{MOS units} * 100}{\text{Target sales units}}$
= $\frac{5,000 \text{ units} * 100}{12,000 \text{ units}}$
= 41.7%

vi) Sales Units to achieve target profit= $\frac{\text{Fixed costs} + \text{Target profit}}{\text{SP/Unit} - \text{VC/Unit}}$

$$= \frac{(28,000,000 + 16,200,000)}{(10,000 - 6,000)}$$

$$= 11,050 \text{ Units}$$

c) Explain any five Assumptions of marginal costing

- **Fixed expenses will remain unchanged over the relevant period.** In the short term it may be valid but over the longer-term unforeseen circumstances may arise which will require additional fixed expenses being incurred (e.g. renting of additional premises). This can create stepped fixed expenses with multiple break-even points.
- **Selling price will remain constant.** A drop in demand may lead to a reduction in the selling price to maintain a reasonable share of the market. Some goods may be sold below normal selling price to attract customers who will then buy more profitable goods (loss leaders).
- **The contribution percentage will remain constant.** This ignores economy of scale which enables variable costs to be reduced. It also assumes that materials will be available at the same price during the relevant period. The recent fluctuations in the price of fuel due to political instability and regional conflicts are a very good example of circumstances, which can completely invalidate break even assumptions.
- **Only one product is sold.** For multiple products break even analysis is very complicated and assumptions are made that the ratio of sales of the different products will remain constant. An average contribution is calculated. This assumption may prove to be inaccurate over an extended period of time.
- **Expenses can be categorized into variable and fixed.** There are a number of grey areas and different firms will treat some expenses as variable whereas others may treat them as fixed

End of Marking Guide and Model Answers