CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 2 EXAMINATIONS

A2.2: STRATEGIC PERFORMANCE MANAGEMENT

DATE: THURSDAY 26, FEBRUARY 2026

INSTRUCTIONS:

1. Time Allowed: **3 hours 45 minutes** (15 minutes reading and 3 hours 30 minutes writing).
2. This examination has **two** sections: **A & B**.
3. Section **A** has **One Compulsory Question** while **Section B** has **Three optional Questions** to choose any **Two**.
4. In summary attempt **Three Questions**.
5. Marks allocated to each question are shown at the end of the question.
6. Show all your workings where necessary.
7. The question paper should not be taken out of the examination room.

SECTION A

QUESTION ONE

Kigali Health Bread (KHBP) Plc is a listed company operating in the bread manufacturing sector in East Africa. The company is very known for its production and selling three types of high-quality products namely VIP Sandwich, Cake and Cut bread to schools, supermarkets and other shops across the region. The company has been experiencing issues in governance and decision-making issues, production inefficiencies, tight competition from multinational companies and scarcity of resources used in production. Kigali Health Bread (KHBP) Plc produces all the three products and each of the them has two special ingredients, sourced from a remote part of the region. The first of these, brown sugar, and wheat flour which is a super energizing rare type of input. The total fixed costs for the next month are FRW30 million.

KHBP has just found out that the supply of Wheat flour is going to be limited to 55,000 kilograms, and the supply of Sugar will be limited to 40,000 kilograms while the supply of Labor will be limited to 80,000 hours next month. Prior to this, Kigali Health Bread Plc had signed a contract with a leading chain of supermarkets, Tiger supermarket, to supply it with 5,000 cakes each month, at a discounted price of FRW 10,000 per cake, starting immediately. The order for the 5,000 cakes is not included in the expected demand levels above.

KHBP's projected manufacture costs, selling prices and expected demand as estimated and presented by the marketing director in a recent senior management meeting, for the three products are as follows:

Details	**VIP Sandwich**	**Cake**	**Cut bread**
Expected demand-Units	20,000	17,500	7,800
Per unit	**FRW**	**FRW**	**FRW**
Selling price	5,000	12,000	6,000
Costs			
Ingredients: Sugar (FRW 1,200 per Kg)	600	1,200	600
Ingredients: Wheat flour (FRW 1,000 per Kg)	1,000	2,500	1,200
Other ingredients	450	2,000	600
Labor costs (FRW 1,000 per hour)	1,000	2,000	1,000
Variable overheads	250	1,800	350
Total variable costs	**3,300**	**9,500**	**3,750**
Contribution	**1,700**	**2,500**	**2,250**

Kigali Health Bread (KHBP) Plc has also been struggling due to different issues in financial management such as (working capital, liquidity management, gearing and profitability management), issues of the scarce resources more specifically in production and uncertainty around production and sales due to the intense competition and advanced level in production technology. The management was of the view that benchmarking to the sector average would be of the great importance. The finance director presented the following industry average which will be used to assess the company's performance vis a vis the sector average.

Ratio type	Industry average
1. Liquidity ratios	
Quick ratio	1:1
Current ratio	2:1
2. Profitability ratios	
Annual revenue growth	20%
Gross Profit margin	35%
Operating profit margin	15%
Return on capital employed	16%
Return on equity	15%
3.Gearing ratios	
Debt-to-Equity Ratio	40%
Interest cover	4
4. Working capital (activity) ratios	
Receivable days	30 days
Payable days	70 days
Inventory days	60 days

Statement of financial performance for the years 2023, 2024 and 2025

Description	2023	2024	2025
	FRW'000	**FRW'000**	**FRW'000**
Revenue	18,000	20,500	24,000
Cost of sales	(12,600)	(14,700)	(17,500)
Gross profit	5,400	5,800	6,500
Operating expenses	(3,000)	(3,400)	(4,000)
Operating profit	2,400	2,400	2,500
Finance costs	(600)	(700)	(900)
Profit before tax	1,800	1,700	1,600
Income tax expense (30%)	(540)	(510)	(480)
Profit after tax	**1,260**	**1,190**	**1,120**

Statement of financial position as at 31st December 2023, 2024 and 2025

Description	2023	2024	2025
	FRW'000	**FRW'000**	**FRW'000**
	2023	**2024**	**2025**
Non-current assets	14,000	15,500	18,000
Current assets	6,000	6,500	7,200
Total assets	20,000	22,000	25,200
Equity (share capital + reserves)	9,000	9,800	10,400
Non-current liabilities	7,000	8,200	10,500
Current liabilities	4,000	4,000	4,300
Total equity and liabilities	20,000	22,000	25,200

Additional information

The details of the current assets and liabilities are described below:

Description	**2023**	**2024**	**2025**
	FRW'000	**FRW'000**	**FRW'000**
Current Assets			
Inventory	3,000	3,250	3,600
Trade receivable	2,000	2,150	2,680
Bank	1,000	1,100	920
Total	6,000	6,500	7,200
Current Liabilities			
Trade payables	3000	3,000	3,200
Accruals	1,000	1,000	1,100
Total	4,000	4,000	4,300

In the same meeting, the management of Kigali Health Bread Plc (KHBP) must choose whether to go ahead with either of two mutually exclusive projects. The first project (Project Alpha) is to extend the company in all district of Rwanda and the second project (Project Beta) of vertical integration and merging with a reputable supermarket in Kigali to reduce its supply chain. It was established that there is 75% probability of low demand and 25% probability of high demand in either project. Below are the expected profits under each of the two proposed projects:

- Project Alpha is expected to generate a profit of FRW 6,500,000 during a period of high demand and a loss of FRW 2,000,000 during low demand period.
- Project Beta is expected to generate a profit of FRW 2,500,000 during a period of high demand and a profit of FRW 1,500,000 during low demand period.

“Perfect information removes all doubt and uncertainty from a decision, and enables managers to make decisions with complete confidence that they have selected the optimum course of action” this was highlighted by the Chief Executive Officer (CEO) of the company in the same meeting.

Required:

a) **Advise on the optimum production plan that maximize contribution and maximum profit of the three products for the month (VIP Sandwich, Cake and Cut bread)** (15 Marks)

b) **Write a memo to the Chief Executive Officer assessing the performance of KHBP in line with the provided sector averages** (26 Marks)

NOTE: Calculations should be part of the appendix

c) **Advise what the decision would be, based on expected values, if no information about demand were available and advise on the value of perfect information about demand** (7 Marks)

d) **Briefly discuss how simulation can be used to handle the issue of risk and uncertainty in performance management** (2 Marks)

(Total: 50 Marks)

SECTION B

QUESTION TWO

Exhibit 1

Apex Tech Solutions (ATS) provides specialized technical installation services to the renewable energy sector. The company has recently been invited by a solar energy developer to submit a bid for installing smart energy control units in a new project consisting of 700 identical residential units. ATS has not previously worked with this developer. Cost information for the proposed contract is as follows:

Skilled technicians required for the contract are readily available. ATS estimates that the installation of the first smart energy control unit will take 30 technician-hours. Thereafter, the time taken for each installation will be subject to a 80% learning rate, as technicians gain experience and efficiency improves.

The learning effect is expected to continue until 300 units have been installed. After the 300th installation, the learning rate will cease, and the time taken to install the 200th unit will apply to all remaining units. The cost of skilled technician labour is FRW 1,500 per hour.

Months	Hours worked	Total Overhead costs
	Hours	FRW
January	4,650	230,000
February	4,600	227,200
March	4,700	232,000
April	4,800	233,600

Apex Tech Solutions (ATS) normally works around 120,000 labour hours in a year and it uses the high low method to analyse overheads.

Exhibit 2

Apex Tech Solutions (ATS) has tried so many pricing methods in recent years. In a senior management meeting the Chief Finance Officer highlighted that he has learned that relying solely on a full cost-plus pricing approach creates serious challenges for the business.

Apex Tech Solutions (ATS) has begun to produce a new product, Product Ape, for which the following cost estimates have been made.

Details	Amount
	FRW
Direct materials	54,000
Direct labour	40,000
Variable production overheads	6,000
Total variable costs	**100,000**
Monthly production fixed costs	FRW 600 million

Additional information

1) The product Ape requires 8 hrs at FRW 5,000 per hour and the variable production overheads is made of machining requiring 1 hr at FRW 6,000 per hour.
2) Because of the shortage of available machining capacity, the company will be restricted to 20,000 hours of machine time per month. The absorption rate will be a direct labour rate, however, and budgeted direct labour hours are 100,000 per month. It is estimated that the

company could obtain a minimum contribution of FRW 20,000 per machine hour on producing items other than product Ape

3) The direct cost estimates are not certain as to material usage rates and direct labour productivity, and it is recognised that the estimates of direct materials and direct labour costs may be subject to an error of 15%. Machine time estimates are similarly subject to an error of 10%.
4) The company wishes to make a profit of 20% on full production cost from product Ape.

Required:

Using information in Exhibit 1:

a) **Describe FIVE factors, other than the cost of labour and overheads mentioned above, that ATS should take into consideration in calculating its bid.** (6 Marks)
b) **Calculate the total cost including all overheads for ATS that it can use as a basis of the bid for the new apartment contract.** (9 Marks)

Using information in Exhibit 2:

c) **Determine the selling price using a full cost-plus pricing approach considering the machine time opportunity costs and a full allowance for possible under-estimates of cost** (8 Marks)
d) **Support the statement made by the Chief Finance Officer in relation to the use of full cost-plus pricing approach** (2 Marks)

(Total: 25 Marks)

QUESTION THREE

Karima & Gahigi Investment Group is a medium-sized manufacturing company operating in Rwanda. The company produces a single standardized environmentally friendly soap product and prepares its budgets based on a normal level of activity. However, during the current financial period, management noted significant differences between the budgeted costs and the actual costs incurred due to changes in production volume and cost behavior patterns.

As part of its performance evaluation and cost control process, the management of Karima & Gahigi Investment Group has requested your assistance in preparing a flexible budget and carrying out a variance analysis**.** Management is particularly concerned about how fixed, semi-variable, and variable costs have behaved at the actual level of output, and how these have affected overall cost performance. Karima & Gahigi Investment Group currently operates a "top-down" budgeting system where senior managers impose budgets on departmental managers. The company is now considering allowing departmental managers to participate in the setting of their own budgets.

The following cost information has been extracted from the company’s cost records for the period ended 31 December 2025 and relates to the budget prepared for a specific 50% level of activity:

Details	Amount/ FRW
Fixed overheads	
Salaries and wages	3,200,000
Depreciation	1,320,000
Sundry and administration expenses	1,480,000
Semi variable expenses	
Maintenance and repairs	1,260,000
Indirect labor	1,580,000
Sales department salaries	760,000
Variable expenses	
Materials	4,340,000
Wages	4,080,000
Other expenses	1,580,000

Additional information

1) Semi-variable expenses remain constant between 45%-65% capacity level, increasing by 10% between 65%-80% capacity level and by 20% between 80%-100% capacity level
2) Sales at 50% capacity level amounted to FRW 20 million

Required:

a) **Prepare a flexible budget for the year ending 31 December 2025 showing the forecast profits at 50%, 75% and 90% capacity levels** (10 Marks)

b) **Argue the THREE cases against the participation of departmental managers in the preparation of their budgets.** (3 Marks)

c) Karima & Gahigi Investment Group makes environmentally-friendly soap using three basic ingredients. The company uses marginal costing system. The standard cost card for one batch of soap for the month of August 2025 was as follows:

Details	Amount
Production and sales	1,610 units
Selling price (per unit)	FRW 12,500
Materials	
Material 1	6 kg per unit at FRW 1,225 per kg
Material 2	3 kg per unit at FRW 560 per kg
Labour	0.5 hours per unit at FRW 840 per hour
Overheads (all fixed)	FRW 564,000 per month

The actual data for the month of May is as follows:

1) The company produced 1,540 units which were sold at FRW12,925 each.
2) Materials used are 9,856 kg of material 1 at a total cost of FRW 12,566,400 and 4,235 kg of material 2 at a total cost of FRW 2,337,720.
3) Labour: Paid an actual rate of FRW 855 per hour to the labour force. The total amount paid out amounted to FRW 613,035.
4) Overheads (all fixed): FRW 661,840.

Required:

Prepare a statement of the variances which reconciles the actual with the standard profit or loss figure. (Mix and yield variances are not required.) (12 Marks)

(Total: 25 Marks)

QUESTION FOUR

a) SkyWays Airlines is a mid-sized regional airline operating domestic and short haul international routes. Over the past three years, the airline has faced increasing competition from low cost carriers and well-established international airlines. Although passenger numbers have remained stable, SkyWays has experienced rising operating costs, declining customer satisfaction scores, frequent flight delays, and complaints regarding baggage handling and in-flight service quality. Internal performance reviews show significant differences between departments. For example, some airports consistently achieve high on-time departure rates, while others regularly experience delays due to inefficient ground operations. Similarly, customer service performance varies widely across routes and cabin crews. Management suspects that outdated procedures, inconsistent performance standards, and lack of coordination between departments are contributing to these problems.

Senior management is considering a structured approach to improve operational efficiency and service quality. They believe that learning from other airlines with superior performance as well as from non-competing service organizations such as high-speed rail operators and hospitality firms could help identify best practices. However, there are concerns about the availability and reliability of competitor data, differences in operating environments (such as fleet types and airport infrastructure), and the time and cost required to carry out such a study.

SkyWays also operates in a highly regulated industry, which limits the extent to which certain practices can be copied directly. Management is unsure which performance measures should be used for comparison and whether focusing on competitors' practices will lead to genuine competitive advantage or simply allow the airline to catch up with industry norms. The airline's board has therefore asked a consulting team to review the situation and recommend a systematic improvement approach that will help SkyWays close performance gaps, enhance customer satisfaction, and maintain long-term competitiveness.

Required:

As the consulting team lead, discuss how the adoption of benchmarking can help SkyWays Airlines to handle its current operational issues (6 Marks)

b) The board of SkyWays has also recently approved a new strategic plan aimed at improving long-term value creation. The strategy focuses on fleet modernization to reduce fuel and maintenance costs, selective expansion into profitable routes, and investment in digital technologies to improve pricing, scheduling, and customer experience. Financial projections prepared by management indicate that, under current assumptions about fuel prices, load factors, and cost efficiencies, the strategy is expected to improve cash flows and enhance the overall value of the airline.

During the strategic review, management considered alternative options, including aggressive price-led expansion to gain market share and outsourcing a larger share of ground operations to reduce costs. These options were ultimately rejected due to concerns about increased operational risk, potential damage to service quality, and uncertain long-term value creation.

Implementing the chosen strategy will require significant capital investment in aircraft, IT systems, and airport infrastructure, as well as recruitment and retraining of pilots, engineers, and data-analytics staff. Managers are required to assess the impact of these investments on the airline's balance sheet and ensure that human resource capabilities align with strategic objectives.

The board has requested that management evaluate whether the strategy improves returns relative to invested capital and how SkyWays' performance compares with key competitors. In addition, managers are asked to assess how changes in fuel prices, economic conditions, or competitive behaviour could affect the value generated by the strategy.

Required:

Discuss how the Value Based Management (VBM) elements of the strategy can be applied to the SkyWays Airlines' business unit level (6 Marks)

c) Bisoke designs, develops and sells my kids games. Games have a short lifecycle lasting around three years only. Performance of the game is measured by reference to the profits made in each of the expected three years of popularity. Bisoke accepts a net profit of 25% of the sales revenues as reasonable. A rate of contribution (sales price less variable cost) of 75% is also considered acceptable. Bisoke has a large centralized development department which carries out all the design work before it passes the completed game to the sales and distribution department to market and distribute the product.

Bisoke developed a brand-new game called Bisoke kid and this has the following budgeted performance figures.

1. Constant selling price of FRW 200
2. At a volume of 10,000 units, a total cost of FRW 780,000 is expected
3. At a volume of 14,000 units, a total cost of FRW 900,000 is expected
4. If volumes exceed 15,000 units, the fixed costs will increase by 50%

The following budget volumes are as follows:

Detail	Year 1	Year 2	Year 3
Sales volume-units	8,000	16,000	4,000

In addition, advertising costs for Bisoke kid will be FRW 600,000 in year one and 400,000 in year two. Design and development costs are all incurred before the game is launched and has not cost of FRW 1,800,000 for Bisoke kid. These costs are written off to the statement of profit or loss as incurred.

Required:

i) **Explain the principles behind lifecycle costing and briefly explain pricing, its implications on performance management and decision making Bisoke designs** (3 Marks)

ii) **Produce the budgeted results for the game Bisoke kid and briefly assess the game's expected performance, taking into account the whole lifecycle of the game.** (10 Marks)

(Total: 25 Marks)

End of Question Paper.