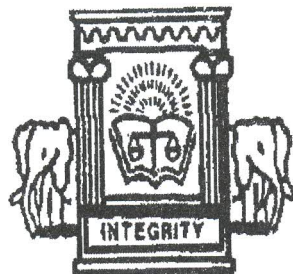


# INSTITUTE OF CHARTERED ACCOUNTANTS (GHANA)



MAY 2011 EXAMINATIONS  
(PROFESSIONAL)

PART 3

COST AND MANAGEMENT ACCOUNTING  
(Paper 3.3)

Attempt ALL Questions

TIME ALLOWED:

Reading & Planning - 15 Minutes  
Workings - 3 Hours

## QUESTION 1

The limitations of the traditional costing system is believed to have been resolved by the introduction of Activity Based Costing (ABC).

Briefly

- (a) Explain and state **five (5)** merits of the ABC system. *(5 marks)*
- (b) Explain **three (3)** limitations of the traditional costing system. *(3 marks)*
- (c) Wunzoya Ltd manufactures “Shito” for the Ghanaian market. The following data relate to its main three markets; Accra, Kumasi and Tamale.

	Accra	Kumasi	Tamale
Gross margin	GHS30,000	GS32,000	GHS31,000
Units sold	825	825	825
Orders placed	800	1600	1050
Sales visits	120	110	130
No. of invoices	400	1000	1050

Total customer cost required to be allocated to various markets is GHS24,750.

Wunzoya has been using ABC costing system. The cost accountant has established the following cost driver rates to allocate customer costs.

Sales Visit	:	GHS10 per visit
Processing of orders	:	GHS2 per order placed
Cost of dispatch	:	GHS2 per order placed
Invoicing and debt collection	:	GHS3 per bill raised

Assuming that a traditional costing system would allocate customer cost on the basis of units sold,

- (a) Prepare a profitability statement based on ABC and rank the market in terms of profitability.
- (b) Prepare a profitability statement based on the traditional costing system and rank the market in term of profitability.

*(12 marks)*

**(Total: 20 marks)**

