SOLUTION 1

(a)

(i) COST CONTROL

This is usually carried out by the formal comparison of actual results with those planned – eg budget, standard cost etc and investigating the variances for corrective measures.

COST REDUCTION

An attempt to reduce cost below the previously accepted norm or standard without reducing the quality or effectiveness it is not carried out frequently – eg could be carried out during the financial crisis of a firm.

(ii) TECHNIQUES/PRINCIPLES OF COST CONTROL

i. Budgeting control

ii. Standard costing

iii. Setting of spending limits by level of management

iv. Procedures for formal authorization of recruitment

v. Control of capital expenditure

(iii) VALUE ANALYSIS

Is used to examine all as aspects of an existing or proposed product or components, in order to reduce costs, whilst maintaining or improving quality. It is useful in areas of design, planning, buying and manufacturing.

(iv) It investigates every aspect of existing or proposed work in order to find the best way of performing tasks. It involves setting standards and solving problems which include bottlenecks, low morale, large amount of defective work and low productivity. It is comprised of method study and work measurements.

(b)

1. (i) Budgeting is the major formal way in which the organisational objectives are translated into specific plans, it should provide clear guidelines for current operations.

2. It is an important medium of communication for organisational plans and objectives and of the progress towards meeting those objectives.

3. The development of budgets helps to achieve co-ordination between the varing depts and functions of the organisation.

4. Management time can be saved and attention directed to areas of most concern.

5. The integration of budgets makes possible better cash and working capital management and makes stock and buying policies more realistic.

(ii)
- Training
- Management Support
- Effective Communication

SOLUTION 2

(a) Variable cost per unit on normal sales:

	GHC
Direct materials	38.80
Direct labour	9.70
Variable manufacturing overhead	2.30
Variable selling & administrative expense	1.70
Variable cost per unit on normal sales	52.50

Variable cost per unit on special order:

	GHC
Normal variable cost per unit	52.50
Reduction in variable selling & admin expenses	0.20
Variable cost per unit on special order	52.30

Selling price for special order	75.30
Variable cost per unit on special order	52.30
Unit contribution margin on special order	23.00
Number of units in special order	3,000
Increase (decrease) in net operating income	GHC69,000

(b) The opportunity cost is just the contribution margin on normal sales:

	GHC
Normal selling rice per unit	81.10
Variable cost per unit on normal sales	52.50
Unit contribution margin on normal sales	**28.60**

(c) Minimum acceptable price:

Unit contribution margin on normal sales	GHC28.60
Displaced normal sales	1,000 units

	GHC
Lost contribution margin displaced sales	28,600
Total variable cost on special order	156,900
	185,500
Number of units in special order	3,000
Minimum acceptable price on special order	GHC61.83

SOLUTION 3

(a)
1. Theft
2. Over and under issue of stock
3. Counting and coding error
4. Unrecorded receipts and issues
5. Breakages and evaporation
6. Short deliveries
7. Defective measuring devices used
8. Absorption of moisture
9. Placing of materials in wrong bins

(b)

ABLE LIMITED
CASH BUDGET TO JUNE 2011

Receipts	Jan	Feb	March	April	May	June
Sales	45,650	30,780	62,586	70,780	80,936	88,400
Payments						
Purchases	14,000	27,440	41,160	35,280	44,100	40,180
Equipment	-	-	-	-	-	9,000
Overheads	6,500	6,500	6,500	8,400	8,400	8,400
Wages & Salaries	16,000	16,000	16,000	16,000	16,000	16,000
Commission	1,400	3,591	4,309	5,171	5,600	6,160
	37,900	53,531	67,969	64,851	74,100	79,740
NCF	7,750	(22,751)	(5,383)	5,929	6,836	8,660
Opening cash	124,000	131,750	108,999	103,616	109,545	116,381
Closing cash	131,750	108,999	103,616	109,545	116,381	125,041

WORKINGS

Purchases

Jan.		14,000
Feb.	(28,000 x 0.98)	27,440
March	(42,000 x 0.98)	41,160
April	(36,000 x 0.98)	35,280
May	(45,000 x 0.98)	44,100
June	(41,000 x 0.98)	40,180

Sales

	Jan	Feb	March	April	May	June
Sales	51,300	61,560	73,873	80,000	88,000	96,800
	20,000					
Jan,	25,650		25,650			
Feb.		30,780		30,780		
March			36,936		36,936	
April				40,000		
May					44,000	
June						48,400
	45,650	30,780	92,586	70,780	80,936	88,400
Sales Commission						
70% Sales	65,910	43,092	51,710.40	56,000	61,600	67,760
10% Commission	3,591	4,309.2	5,171	5,600	6,160	6,776
Commission		3,591	4,309	5,171	5,600	6,160

SOLUTION 4

(a)

(i) Material Mix Variance

				GHC	
5/10	K	(9200 - 101,000)	GHC2.40 =	2160	Fv
3/10	Y	(68000 - 60600)	GHC2.00 =	14800	Adv
2/10	Z	(42000 – 40400)	GHC2.88 =	4608	
		Mix variance		2192	Fv

(ii) Yield Variance

				GHC	
5/8	K	(102222 – 101000)	GHC2.40 =	2933	Fv
3/8	Y	(61333 – 68000)	GHC2.00 =	13334	Adv
2/10	Z	(40,889 - 40000)	GHC2.88 =	1408	Fv
		Yield variance		5807	Fv

(iii) Usage Variance

			GHC	
K	(102222 - 92000)	GHC2.40 =	24533	Fv
Y	(61333 - 68000)	GHC2.00 =	13334	Adv
Z	(40889 - 42000)	GHC2.88 =	3200	Adv
	Usage variance		7999	Fv

(b) Planning Variance

(i) It tests management's forecasting skills by comparing the original budget with the reused budget.

(ii) Operational Variance

It measures management's operating efficiency by comparing actual results with a revised standard/budget.

(c) Advantages

1. It ensures that standards do not become outdated, given changing business conditions.
2. It helps in revision of standard and provides feedback on the accuracy of original standards.
3. Realistic standards improve management motivation.
4. Isolation of operational variances helps responsibility accounting-factors under control of managers are identified and reported on.

Disadvantages

1. It is difficult to establish standards.
2. There is a heavier workload for accounting and managerial staff.

SOLUTION 5

(a)

	Sales (GHC)	Profit (GHC)
Year 2009	1,200,000	80,000
Year 2010	1,400,000	130,000
difference	200,000	50,000

(i) P/V Ratio $= \frac{50,000}{200,000} \times 100 = 25\%$

	GHC
Contribution in 2009 (1,200,000 x 25%)	300,000
Less Profit	80,000
Fixed Cost	220,000

(ii) Break-even point in sales value:

$$\frac{\text{Fixed Cost}}{\text{P/V Ratio}} = \frac{220{,}000}{25\%} = \text{GHC}880{,}000$$

(iii) Profit when sales is GHC1,800,000:

	GHC
Contribution (GHC1,800,000 x 25%)	450,000
Less Fixed Cost	220,000
Profit	230,000

(iv) Sales to earn a profit of GHC120,000:

$$\frac{\text{Fixed Cost + Target Profit}}{\text{P/V Ratio}} = \frac{220{,}000 + 120{,}000}{25\%} = \text{GHC}1{,}360{,}000$$

(v) Margin of safety in 2010:

Actual sales - Break-en sales

1,400,000 - 880,000 = GHC520,000

(b)
1. It helps in determining the Break-even point.
2. It determines the selling price which will give the target profit.
3. It helps determine the cost and revenue as different level of output.
4. It helps in determining the most profitable sales mix.
5. It shows the impact of income or decrease in fixed and variable costs on profit.
6. It helps in determining cash requirements at different levels of operation with the help of cash break-even chart.
7. It aid management decision-making.
8. It shows the effect of changes in selling price or of price differentiation in different markets.

(c) Yehowa-da Ltd

a. Capital allowances

	GHC	Tax saved at 28% GHC	Timing
Cost	5,000		
Year 0 WDA	(1,000)	280	t_0
	4,000		
Year 1 WDA	(800)	224	t_1
	3,200		
Year 2 WDA	(640)	179	t_2
	2,560		
Year 3 WDA	(512)	143	t_3
	2,048		
Year 4 sale proceeds	-		
Balancing allowances	2,048	573	t_4

b. Investment decision
Cash flows

	t_0 GHC	t_1 GHC	t_2 GHC	t_3 GHC	t_4 GHC
Purchase of machine	(5,000)				
Tax saved through WDAs	280	224	179	143	573
Net revenues		3,000	3,000	1,000	1,000
Tax on net revenues		(840)	(840)	(280)	(280)
	(4,720)	2,384	2,339)	863	1,293
Discount factors	1.000	0.909	0.826	0.751	0.683
Present value	(4,720)	2,167	1,932	648	883

NPV = + GHC910
Therefore accept the project.