THE INSTITUTE OF CHARTERED

ACCOUNTANTS (GHANA)

MAY 2012 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

(a) At a workshop for accountants, the chairperson observed that trainers of management accountants are concerned with **cost control,** whereas the major emphasis should be on **cost reduction.**

You are required to:

(i) Distinguish between **cost control** and **cost reduction**. (***4 marks***)

(ii) Explain **four (4)** techniques and principles used in **cost control.** (***4 marks)***

(iii) Explain the following techniques:

a. Value Analysis

b. Work Study (***4 marks***)

(b) Budgeting is an effective management tool in business decisions. Explain **four (4)** reasons why budgeting is important and state **four (4)** conditions necessary for effective budgeting.

(***8 marks***)
(**Total: 20 marks**)

QUESTION 2

Juggle Puzzle Company produces a single product. The cost of producing and selling a single unit of this product at the company's normal activity level of 40,000 units per month is as follows:

	GHC
Direct materials	38.80
Direct labour	9.70
Variable manufacturing overhead	2.30
Fixed manufacturing overhead	18.10
Variable selling & administrative expense	1.70
Fixed selling & administrative expense	8.80

The normal selling price of the product is GHC81.10 per unit.

An order has been received from an overseas customer for 3,000 units to be delivered this month at a special discounted price. This order would have no effect on the company's normal sales and would not change the total amount of the company's fixed costs. The variable selling and administrative expense would be GHC0.20 less per unit on this order than on normal sales.

Direct labour is a variable cost in this company.

Required:

(a) Suppose the company has ample idle capacity to produce the units required by the overseas customer and the special discounted price on the special order is GHC75.30 per unit. By how much would this special order increase or decrease the company's net operating income for the month?

(b) Suppose the company is already operating at full capacity when the special order is received from the overseas customer. What would be the opportunity cost of each unit delivered to the overseas customer?

(c) Suppose the company does not have enough idle capacity to produce all of the units for the oversea customer and accepting the special order would require cutting back on production of 1,000 units for regular customers. What would be the minimum acceptable price per unit for the special order?

(20 marks)

QUESTION 3

(a) State **five (5)** reasons for stock discrepancies revealed during physical stock counts.

(***5 marks***)

(b) Albe Limited was incorporated some five years ago. The financial position as at 31st December, 2010 was as follows:

EQUITY AND LIABILITIES	GHC	GHC
Stated capital:		
Ordinary share [40,000 at GHC12.50 each]		500,000
Preference shares [20,000 at GHC8.00 each]		160,000
		660,000
Long term capital		140,000
		800,000
NON-CURRENT ASSETS		
Building and Land		400,000
Equipment		182,000
Motor Vehicles		48,000
		630,000
CURRENT ASSETS		
Inventory	40,000	
Accounts Receivables	20,000	
Cash at bank	124,000	
	184,000	
CURRENT LIABILITIES		
Accounts payable	(14,000)	170,000
TOTAL ASSETS		800,000

The Company has produced the following estimates:

1) The accounts payable figure of GHC14,000 stated in the financial statement would be paid in January, 2011.

   The following credit purchases are settled a month after the month of purchase, after deducting two percent (2%) discount.

	GHC
January	28,000
February	42,000
March	36,000
April	45,000
May	41,000
June	37,000

2) Sales for January will be GHC51,300 and will increase at the rate of 20% per month until March. In April, sales will rise to GHC80,000 and this will rise by10% per month thereafter.

   Sales will be divided equally between cash and credit sales. Credit customers are expected to pay two months after the sales.70% of sales will be generated by sales agents who will receive 10% commission on sales.

   The commission is payable one month after the sales.

3) The company intends to purchase further equipment in August for GHC45,000. However, a deposit of 20% is supposed to be made in June.

4) Accounts receivable as at 31/12/2010 will be settled in January, 2011.

5) Other overheads will be GHC6,500 per month for the first three months and GHC8,400 thereafter. Wages and salaries will be GHC16,000 per month. Both types of expense will be payable when incurred.

6) Depreciation is to be provided at the rate of 10% per annum on land and building and 20% per annum on equipment (depreciation has not been included in the overheads mentioned above).

Required:

Prepare a monthly Cash Budget for Albe Ltd for January 2011 to June 2011. (***15 marks***)

(**Total: 20 marks**)

QUESTION 4

Bee Ltd produces Cocoa drink in Accra by mixing three ingredients; K, Y, and Z in the proportions 5: 3: 2 respectively.

The production process does not always mix the ingredients in these proportions, but the drink can be sold if the mixture is within certain limits. The standard prices for the ingredients are:-

K	-	GHC 2.40 per litre
Y	-	GHC 2.00 per litre
Z	-	GHC 2.88 per litre

There is 10% normal loss during the process, so that the expected yield is 90%.

During the last period, the output of the cocoa drink was 184,000 litres.

The inputs were:

92,000 litres of K at GHC 2.52 per litre
68,000 litres of Y at GHC 1.88 per litre
42,000 litres of Z at GHC 2.92 per litre

Calculate the following variance:

(a) (i) Materials mix variance (***3 marks***)

(ii) Material yield variance (***3 marks***)

(iii) Material usage variance (***3 marks***)

(b) Explain the following variances

(i) Planning variance (***2½ marks***)

(ii) Operational variance (***2½ marks***)

(c) State **two (2)** advantages and **two (2)**disadvantages of variance analysis using planning and operating variances. (***6 marks***)

(**Total: 20 marks**)

QUESTION 5

a. Ababio Plastic Company produces plastic buckets which are distributed all over the country. During the years 2009 and 2010, the following data were extracted:

	Sales (GHC)	Profits (GHC)
Year 2009	1,200,000	80,000
Year 2010	1,400,000	130,000

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You are required to calculate the following:

i. Profit –Volume Ratio (P/V Ratio)

ii. Break – Even Point in Sales value

iii. Profit when the sales value is GHC1,800,000

iv. The Sales Value required to make a profit of GHC120,000

v. The Margin of Safety in the Year 2010

(***10 marks***)

b. State **three (3)** uses of the Cost- Volume- Profit (CVP) Analysis. (***3marks***)

c. Yehowa –Da Company Ltd is considering investing in an ice cream plant to operate for the next four years. The plant will cost GHC5,000 and is expected to have no residual value. Capital Allowance, at a rate of 20% per annum will be available in respect of the expenditure. Revenue from the plant will be GHC7,000 per year for the first two years and GHC5,000 thereafter. Incremental costs will be GHC4,000 per annum throughout the period.
The company's cost of capital is 10% and pays corporate tax at 28% to the year. Cash flows will be received or paid in the year in which they relate.

Required:

i. Calculate the tax saved through the capital allowance and show the savings arise.

(3 *marks*)

ii. Advise Yehowa –Da Company Ltd on whether or not to proceed with the investment in the ice cream plant. (***4 marks***)

(**Total: 20 marks**)