

Sample paper 2008

COST ACCOUNTING

Level 2

Subject Code: 2017

Time allowed: **2 hours 30 minutes**

INSTRUCTIONS FOR CANDIDATES

- Answer **all 5** questions.
- All questions carry equal marks.
- Write your answers in blue or black ink/ballpoint. Pencil may be used only for graphs, charts, diagrams, etc.
- Begin your answer to each question on a new page.
- All answers must be correctly numbered, but need not be in numerical order.
- Workings must be shown.
- Presentation is important.
- You may use a calculator provided the calculator gives no printout, has no word display facilities, is silent and cordless. The provision of batteries and their condition is your responsibility.

QUESTION 1

A company trades in a single product. Issues are priced out on a LIFO basis but the directors are considering changing to a weighted average basis. During March the following transactions occurred:

March

- 1 Balance brought forward nil
- 3 Purchased 200 units @ £1.00 each
- 7 Sold 180 units
- 8 Purchased 240 units @ £1.50 each
- 14 Sold 170 units
- 15 Purchased 230 units @ £2.00 each
- 21 Sold 150 units

REQUIRED

- (a) Show the entries in the stores ledger record (quantity, price and value) as they would appear for **each** method. (Calculations should be rounded to two decimal places). (14 marks)
- (b) Compare the effect on profits resulting from the use of each method in times of rising prices. (4 marks)
- (c) Name **2** documents which would be used as a basis for the entries in the stores ledger record. (2 marks)

(Total 20 marks)

QUESTION 2

A small company, which makes a single product, classifies all its production overheads of £2,400 per week as fixed.

The company currently employs a team of four direct operatives who produce 150 units in a 40-hour week at the following rates of pay.

Operator	Hourly rate £
A	3.0
B	3.0
C	5.0
D	7.0

In addition each operator will receive a bonus of £1.20 for every unit produced. In the first week of the trial production was 180 units.

REQUIRED

- (a) Calculate the current labour cost per unit and the labour cost per unit in the first week of the trial. (14 marks)
- (b) On the basis of the first week's results, advise management on whether the incentive scheme is worthwhile showing your supporting calculations. (6 marks)

(Total 20 marks)

QUESTION 3

- (a) A company makes a single product. The variable cost per unit is £1.50 and the current selling price is £2.90 per unit. Fixed costs are £2,800 per month and the annual profit at the current sales volume is £42,000.

REQUIRED

- (i) Calculate the annual break-even point in units
- (ii) Calculate the number of units to be sold per annum to increase the current profit by 10%
- (b) The Sales Director wishes to raise the selling price to £3.30 per unit.

REQUIRED

Calculate at the new price:

- (i) the annual break-even point in units (3 marks)
- (ii) the number of sales units required per annum to maintain the current profit of £42,000 (3 marks)
- (c) State **3** assumptions upon which cost-volume-profit analysis is based. (6 marks)

(Total 20 marks)

QUESTION 4

The budgeted revenues and costs for a company for the period January to May Year 5 are as follows:

Month	Cash Sales £	Credit Sales £	Purchases £	Wages £	Overhead £
January	-	74,000	55,000	10,000	30,000
February	-	82,000	61,000	10,000	30,000
March	20,000	80,000	60,000	10,000	30,000
April	22,000	90,000	69,000	10,000	35,000
May	25,000	100,000	75,000	9,000	35,000

The following details are also available:

- (1) Credit sales are settled as follows:
40% in the month of sale, 45% in the month after sale and 12% in the month following.
The balance represents bad debts.
- (2) Creditors for purchases give one month's credit.
- (3) Wages are paid in the month they occur.
- (4) Overheads (excluding depreciation) are paid one month in arrears. The above monthly cost included a charge for depreciation of £6,000 per month.
- (5) A machine with a net book value of £12,000 at the end of Year 4 will be sold for £9,000 and paid for in May, Year 5.
- (6) The company has a budgeted cash balance of £15,000 at the beginning of March Year 5.

REQUIRED

Prepare a cash budget for each of the 3 months March, April and May Year 5.

(20 marks)

QUESTION 5

The following is an extract from the budget of a company which manufactures two grades of cloth (Grade A and Grade B) for clothing manufacturers. Each grade of cloth is made up of a mixture of two types of material (polyester and cotton). The standard prime cost specifications for each grade of cloth are as follows:

	Grade A Per Metre	Grade B Per Metre
Direct material (polyester) at £3 per kg	0.2 kg	0.2 kg
Direct material (cotton) at £4 per kg	0.3 kg	0.2 kg
Direct labour at £8 per hour	15 minutes	12 minutes

During Month 5 the following actual results were achieved:

Production:

Grade A cloth 3,200 metres

Grade B cloth 4,000 metres

Direct material consumed:

 Polyester 1,300 kg cost £4,050

 Cotton 1,900 kg cost £7,200

Direct labour hours worked

 1,580 hours cost £12,200

REQUIRED

Calculate for Month 5:

- (a) The total direct materials cost variance for each type of material analysed as to:
- (i) direct material usage (9 marks)
 - (ii) direct material price (5 marks)
- (b) The total direct labour cost variance analysed as to:
- (i) direct labour efficiency (4 marks)
 - (ii) direct labour rate (2 marks)

(Total 20 marks)