LCCI International Qualifications from EDI

Series 2 Examination 2010

COST ACCOUNTING

Level 3

Friday 21 May

Subject Code: 3017/M

Time allowed: **3 hours**

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

Folan Bullard manufactures and sells a single product.

The following budgeted information is available for a period:

Selling price	RM 80 per unit
Variable overheads	RM 48 per unit
Fixed costs	RM 84,000

The company is budgeting to make a profit of RM 72,000 and has a maximum production capacity of 7,000 units.

REQUIRED

(a) Calculate the contribution/sales ratio and determine the sales in units and revenue if the company is to achieve its budgeted profit.

(4 marks)

(b) Calculate the break even point (in sales units) and the margin of safety (as a % of the sales figure calculated in (a) above).

(4 marks)

Frazier Windass makes and sells three products (Exe, Whye and Zed).

The following data relates to these three products:

	Exe **RM**	**Whye** **RM**	**Zed** **RM**
Selling price per unit	126	90	84
Variable costs per unit	60	36	42

Fixed costs for the period are RM 195,000.

The company has a maximum demand for 1,500 units of Exe and 2,250 units of Whye for the period. The company is budgeting for a profit of RM 124,200 for the period.

REQUIRED

(c) Calculate how many units of Zed would have to be sold in the period, if the company meets its anticipated demand for Exe and Whye, in order to meet the above profit.

(6 marks)

QUESTION 1 CONTINUED

Duke Myhill Limited has produced the following summary budgeted profit statement for the next period, when it expects to be operating at 75 per cent of capacity:

Sales	4,500 units at RM 64 per unit			288,000
Less:	Direct materials/wages		126,000	
Production overhead:		fixed	42,000	
		variable	<u>18,000</u>	<u>186,000</u>
Gross Profit				102,000
Less:	Administration costs:			
		fixed	36,000	
		variable	<u>27,000</u>	<u>63,000</u>
Net profit				39,000

The company is considering an alternative course of action to the above budget:

To reduce the selling price per unit to RM 56, whereupon the increased demand would be expected to utilise 90% of the company's capacity without any increase in the fixed overhead expenditure.

REQUIRED

(d) Assess the proposed alternative, compared with the original budget, and advise management whether this proposal ought to be adopted.

(6 marks)

(Total 20 marks)

QUESTION 2

Stelios Cousin manufactures and sells a single product.

The following budgeted data has been prepared, based on producing and selling 19,000 units:

	RM
Direct materials	237,500
Direct labour	118,750
Variable production overheads	190,000

Fixed production overheads are budgeted at RM 71,250 per period. These fixed overheads are absorbed at a predetermined rate per unit if absorption costing is applied.

The actual selling price was RM 37.50 per unit.

At the beginning of period one 1,000 units of the product were in stock:

Actual sales and production for periods one and two were as follows:

	Period One	**Period Two**
Production	18,500	19,600
Sales	17,500	18,500

The unit variable costs and total fixed costs were as budget in both periods.

REQUIRED

(a) Prepare profit statements for each of the two periods using absorption costing.

(9 marks)

The company wishes to compare the results reported in (a) above with those that would be reported using marginal costing.

REQUIRED

(b) Prepare profit statements, using marginal costing, showing the actual results for each of the two periods.

(7 marks)

(c) Explain the reasons why the differences in the profits have occurred in the two methods above.

(4 marks)

(Total 20 marks)

QUESTION 3

Folan Zayette Ltd. operates a system where the cost accounts are kept separate from the financial accounts.

The following balances were in the cost ledger at the beginning of April 2010:

	RM	RM
Raw materials control	76,250	
Work in progress control	40,350	
Finished goods control	58,740	
Production overhead control (under absorbed)	4,860	
Financial ledger control		180,200

The following transactions occurred during the period:

	RM
Purchases of raw materials	535,600
Direct materials issued	482,350
Indirect materials issued	39,100
Direct wages incurred	149,460
Indirect factory wages & salaries incurred	75,420
Other indirect manufacturing expenses	50,850
Production overheads absorbed	172,500
Finished goods completed	822,645
Production cost of sales	833,260
Sales	946,250

REQUIRED

(a) Record the above transactions in the cost ledger and balance all the accounts for April 2010.

(16 marks)

(b) Transfer all appropriate balances into a Trial Balance as at 1st May 2010.

(4 marks)

(Total 20 marks)

QUESTION 4

George Mendy Limited manufactures a single product and prepares a reconciliation statement each period showing the variances between standard production costs and actual production costs.

The following is the statement for Period X:

	RM		RM
Standard cost of production			291,600
Cost variances			
Direct materials – price	4,125	Fav	
Direct materials – usage	1,500	Adv	
Direct labour – rate	4,834	Adv	
Direct labour – efficiency	525	Fav	
Variable overheads – expenditure	4,950	Adv	
Variable overheads – efficiency	350	Fav	
Fixed overheads – expenditure	250	Adv	
Fixed overheads – volume	3,600	Fav	
			2,934 Adv
Actual cost of production			294,534

The standard production cost for one unit of the product was:

Direct materials 5 kg at RM 2 per kg
Direct labour 4 hours at RM 3 per hour
Variable overheads @ RM 2 per hour per direct labour hour
Fixed overheads @ RM 1.50 per hour per direct labour hour

The actual production for March was 8,100 units.

No stock of raw materials is held.

REQUIRED

(a) Calculate for Period X:

- (i) actual quantity of direct material used and the total actual direct material cost (3 marks)
- (ii) actual direct labour hours worked and the total actual direct labour cost (3 marks)
- (iii) actual variable production overheads incurred (3 marks)
- (iv) actual fixed production overheads incurred (3 marks)
- (v) the budgeted production units. (2 marks)

(b) Distinguish between an ideal standard and an attainable standard. (2 marks)

(c) Explain the possible reasons for the direct material and direct labour variances as detailed above. (4 marks)

(Total 20 marks)

QUESTION 5

Geovanni Fagan is starting up in business and has asked for your assistance in preparing a cash budget forecast.

You are given the following budgeted information for the first three months of trading:

	Sales	Purchases	Production
	(units)	(units)	(units)
July	1,600	2,000	1,900
August	2,000	1,800	2,000
September	2,400	2,400	2,300

You are informed that:

(i) 50% of the sales value is to be received in the month of sale, 25% in the month after the sale and the remainder in the following month. It is estimated that only 80% of the amount outstanding for the second month after the sale will be paid, the remainder will need to be written off as a bad debt. Selling price is set at RM 60.

(ii) 40% of Purchases are paid in the current month, with the remaining 60% paid in the following month. The cost per unit has been set at RM 30 for July and August; rising to RM 32 from September.

(iii) Direct Wages amount to RM 16 per unit. 75% of the total is paid in the current month and 25% in the month following production.

(iv) Variable Overheads amount to RM 10 per unit for July and August. This will rise to RM 12 per unit from September. The policy is to pay 60% of the total amount incurred in the month of production, with the remainder paid in the following month.

(v) Fixed overheads are estimated to be RM 12,000 per month, paid during each month.

(vi) Fixed Assets with a total cost of RM 60,000 will be purchased in July when a 40% deposit will be paid. The balance is to be paid in four equal instalments, commencing two months after purchase at two month intervals.

(vii) The above fixed assets will be depreciated on a straight line basis over four years, starting immediately. The depreciation charge has been included in the fixed overheads.

(viii) If the company has a positive cash balance at the end of the month, interest will be receivable at a rate of 6% per annum, paid in the following month. Any negative balance will result in interest being charged at a rate of 9% per annum, once again being charged in the following month.

(ix) The owner of the company intends to start with a cash balance of RM 30,000.

(x) The company has also negotiated a business loan of RM 50,000 starting in July.

REQUIRED

(a) Prepare a Cash Budget for **each** of the months July, August and September 2010. (16 marks)

(b) Describe **two** benefits that the business would expect to achieve from the budget setting process. (4 marks)

(Total 20 marks)

