THE INSTITUTE OF CHARTERED ACCOUNTANTS (GHANA)

INTEGRITY

MAY 2006 EXAMINATIONS
(PROFESSIONAL)

COST ACCOUNTING
(Special Paper)

Attempt ALL Questions

TIME ALLOWED: 3 HOURS

QUESTION 1

a) Explain each of the following concepts as used in Cost Accounting:

i) Cost
ii) Cost unit
iii) Cost centre
iv) Overhead cost
v) Fixed cost (10 marks)

b) Outline five objectives of Cost Accounting. (5 marks)

c) Explain five (5) differences between Cost Accounting and Financial Accounting. (5 marks)

(Total: 20 marks)

QUESTION 2

Nkunimdi Ltd is a manufacturing company engaged in the manufacture of fruit juice, which passes through three processes; Processes A, B and C.

The information given below is extracted from the company's records, relating to process B for the month of March 2006.

i) Work in progress as at 1st March 2006 is 3000 units and the cost of the work-in-progress is analysed as follows:

	¢' 000
Material X	37,500
Material Y	9,000
Material Z	1,800
Conversion cost	16,200
	64,500

ii) The cost of material transferred from the previous process A is 21,600 units at a total cost of ¢196,500,000. All of this is charged to material X.

iii) The cost incurred during the month of March 2006 consists of the following:

	¢' 000
Material X	54,000
Material Y	99,000
Material Z	37,800
Conversion cost	172,075

iv) Units completed during March 2006 is 19,700 units.

v) The following units were scrapped:

Normal	600 units
Abnormal	300 units

The units scrapped were 100% complete for materials and 50% complete for conversion cost.

vi) As at 31st March 2006, 4000 unit work-in-progress existed and were completed as follows:

Material X	100% complete
Material Y	62.5% complete
Material Z	50% complete
Conversion Cost	35% complete

Required:

a) Prepare a statement of equivalent units of production for the various elements of cost.

b) A statement of cost per equivalent units for each element of cost.

c) A statement of account valuation.

d) Process B Account

(Total: 20 marks)

QUESTION 3

Last Chance Co Ltd is a medium sized company engaged in the manufacture of furniture for export and for the local market. It has budgeted for the following production overheads for its production and service cost centres for the year 2007.

Cost Centre	**¢' 000**
Machining	32,400
Assembly	28,800
Paint shop	23,400
Engineering shop	15,125
Stores	9,325
Canteen	13,500

The product passes through the Machining, Assembly and Paint shop. The following data relates to the Cost Centres:

	Machining	Assembly	Paint Shop	Engineering Shop	Stores
Number of employee	35	25	20	15	5
Engineering shop-service	9000	6000	5000	-	-
Stores (orders)	360	270	180	90	-

Budgeted Data

The following budgeted data relate to the production cost centres:

	Machining	Assembly	Paint shop
Machine hours	18,400	16,200	13,200
Labour hours	16,600	22,500	18,000
Labour costs	¢7,200,000	¢15,840,000	¢8,100,000

Actual Results

The actual results for the production cost centres were:

	Machining	Assembly	Paint shop
Machine hours	20,000	16,400	13,200
Labour hours	9,000	15,600	13,800
Labour cost	¢4,500,000	¢7,560,000	¢6,300,000
Actual overheads	¢52,200,000	¢30,060,000	¢27,900,000

Required:

a) Determine the predetermined overheads absorption rate for the three production cost centres on the following bases:

Machining	-	machine hours
Assembly	-	labour hours
Paint shop	-	labour cost

b) Prepare a statement to determine overheads under absorbed or over absorbed.

c) State two reasons for the use of predetermined overhead absorption rates.

(Total: 20 marks)

QUESTION 4

a) Briefly explain the following concepts as used in budgeting:

i) Rolling budget
ii) Fixed budget
iii) Budget manual (6 marks)

b) Akuntaa Enterprise plans to produce and sell 12,000 units of product B during July 2006. The selling price of the product is estimated to be ¢20,000 per unit.

The information below is given in respect of production requirements.

i) one unit of Product B requires the following:

	Units
Material X	12
Material Y	9

ii) Stocks of raw material at 1st July 2006 are expected to be as follows:

	Units	Unit price ¢
Material X	60,000	1,000
Material Y	45,000	500

iii) It is expected that the closing stock of each of the raw material will be sufficient to produce 75% of the budgeted sales of Product B.

iv) There are no opening or closing stocks of the finished Product B.

v) Material prices are expected to remain unchanged as those for the opening stocks.

You are required to prepare the following budgets:

i) Raw-material usage budget
ii) Raw-material purchase budget
iii) Budgeted Trading Account for July 2006. (14 marks)

(Total: 20 marks)