



COST ACCOUNTING

March 2022

Time allowed

Three hours

Instructions

- Write the question number next to each answer in your answer booklet.
- You are not required to rewrite the question in your answer booklet.
- Ensure that you pay particular attention to words in **bold**.

Information

- Different questions may carry a different number of marks.
- Marks for each question are shown in [].

Advice

- Read each question carefully before you start to answer it.
- Use the full time permitted and check all your answers.

Materials

- Notes or books are not permitted.
- Non-programmable calculators are permitted.



ICM

ANSWER ANY FIVE QUESTIONS FROM THE FOLLOWING SEVEN QUESTIONS

1. (a) Outline the contents of a budget manual. [10 marks]
 (b) Describe the concept of activity based budgeting (ABB). [10 marks]

2. A public limited company is launching a new product. The following budgeted data is provided:

Budgeted data	£
Direct material cost per unit	30
Direct labour cost per unit	30
Variable overhead cost per unit	50
Selling price per unit	200
Fixed overhead cost	450,000

Note:

- Planned production and sales 12,000 units.
- Maximum possible output 16,000 units.

- (a) Calculate the original budgeted profit. [3 marks]
 (b) Calculate the original budgeted break-even point. [2 marks]
 (c) (i) Calculate the profit if the sales manager spends an additional £100,000 on marketing and the company sells 14,000 units at a price of £210 per unit. [3 marks]
 (ii) The production manager implements a cost reduction programme reducing direct materials by 10%, direct labour by 5% and variable overheads by 5%. This also includes a saving of £30,000 on fixed overheads. Calculate the profit based on selling 12,000 units at £200 each. [5 marks]
 (iii) Suggest which option the company should choose, including the reason for your suggestion. [2 marks]
 (d) Explain the difference between fixed and variable costs. [5 marks]
3. A public limited company makes a chemical product and uses process costing. The following details relate to the month of March 2022:

Process 1

- Input 5,000 litres of the required chemical at £0.90 per litre
- Labour cost is 75 direct hours at £16 per hour
- Overhead cost = £1,425
- 4,750 litres transferred to Process 2
- There is a normal loss of 5% of input – it has no scrap value.

- (a) (i) Prepare the process account for Process 1. [6 marks]
 (ii) Calculate the unit cost per litre. [2 marks]
 (b) State the debit and credit entries that can be recorded in a contract account. [6 marks]
 (c) Explain the difference between specific order costing and operation/process costing. [6 marks]

4. A shop has the following forecast data for the period April 2022–July 2022:

Forecast data				
	April	May	June	July
	£	£	£	£
Sales	120,000	140,000	180,000	160,000
Purchases	70,000	110,000	100,000	90,000
Overheads	24,000	24,000	26,000	26,000
Wages	20,000	21,000	21,000	22,000

Notes:

- 50% of sales are on a cash basis, and 50% are on a credit basis
- Debtors are given one month's credit
- Suppliers give one month's credit
- Overheads are paid one month in arrears
- Overheads include £4,000 in respect of the depreciation of fixed assets
- Wages are paid in the month in which they are incurred
- New equipment costing £80,000 will be paid for in May
- The sale of old equipment will bring income of £5,000 in June
- An investment grant of £10,000 is due in June
- The bank balance is predicted to be £18,000 on 1st May

- (a) Prepare a receipts schedule for the three month period May to July. [5 marks]
- (b) Prepare a payments schedule for the three month period May to July. [4 marks]
- (c) Prepare a cash budget for the three month period May to July. [6 marks]
- (d) Analyse the figures produced in the cash budget/forecast. [5 marks]

5. A public limited company uses standard costing for product cost control.

The standard cost of making one unit is as follows:

Direct material	5 kilograms at £6 per kilogram
Direct wages	2 hours at £16 per hour

The actual cost of a batch of 1,000 units was:

Direct material	£32,300 (6,250 kilograms)
Direct wages	£32,420 (1,970 hours)

- (a) Calculate each of the following:
- (i) The material price variance [2 marks]
- (ii) The material usage variance [2 marks]
- (iii) The labour rate variance [2 marks]
- (iv) The labour efficiency variance [2 marks]
- (v) The total cost variance [2 marks]
- (b) Outline possible causes of the material variances. [4 marks]
- (c) Explain the benefits of operating a standard costing system. [6 marks]

6. A public limited company has a limited capital budget available for investment in suitable projects and has short-listed two possible choices. The details are as follows:

	Project A	Project B
Capital cost	£2,200,000	£2,300,000
Expected life	5 years	5 years
Residual value	nil	nil
Budgeted cash inflows:	£000	£000
Year 1	200	300
Year 2	800	900
Year 3	1,400	1,500
Year 4	700	600
Year 5	400	400

Note:

The cost of capital is 9%

Extracts from NPV tables are as follows:

Year	8%	9%	10%
1	0.926	0.917	0.909
2	0.857	0.841	0.826
3	0.794	0.772	0.751
4	0.735	0.708	0.683
5	0.681	0.650	0.621

- (a) Calculate the payback period for each project. [4 marks]
- (b) Calculate the accounting rate of return for each project. [4 marks]
- (c) Calculate the NPV for each project. [8 marks]
- (d) Define what is meant by the term 'post audit review' in the context of capital investment appraisal. [4 marks]

7. Describe any **four** of the following:

- Labour Turnover Ratio
- Continuous Stocktaking
- Economic Order Quantity (EOQ)
- Piecework Rates
- Just in Time Purchasing (JIT)
- Service Costing

[20 marks]

END OF QUESTIONS