



ICM

SEPTEMBER 2016

COST ACCOUNTING

Instructions to candidates:

- a) Time allowed: Three hours (plus an extra ten minutes' reading time at the start – do not write anything during this time)
 - b) Answer any FIVE questions
 - c) All questions carry equal marks. Marks for each question are shown in []
 - d) Non-programmable calculators are permitted in this examination
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1.
 - a) Contrast job costing with process costing showing that you understand the characteristics of both these methods of costing. [10]
 - b) Explain the nature of **incremental cost** and **opportunity cost** and mention how these classifications of cost can help capital expenditure/investment decisions. [10]
 2. The following are the forecast data of a company for the last month of the 2015/16 budget cycle and the first three months of its 2016/17 budget cycle:

	September	October	November	December
	£	£	£	£
Sales	140,000	150,000	190,000	170,000
Purchases	75,000	105,000	110,000	100,000
Overheads	29,000	30,000	31,000	32,000
Wages	22,000	23,000	24,000	24,000

Other Information:

- 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 £3,000 in respect of the depreciation of fixed assets
- Wages are paid in the month in which they are incurred
- Two vans costing £65,000 will be paid for in November
- The sale of old vans will yield £3,000 in November
- An asset disposal of £3,000 is due to be received in October
- The bank balance is forecast to be £6,000 on 1 October 2016

TASKS

- a) Prepare a receipts schedule for the period: October – December 2016. [4]
- b) Prepare a payments schedule for the period: October – December 2016. [4]
- c) Prepare a cash budget for the period: October – December 2016. [6]
- d) Comment on the cash budget and any recommendations you would make. [6]

continued overleaf

3. Nustyle plc is about to bring a new product to the market. The following estimates of costs are given and you are required to provide budgeted figures.

	£
Direct material cost per unit	20
Direct labour cost per unit	40
Variable overhead cost per unit	60
Selling price per unit	190
Fixed overhead cost	550,000

Planned production and sales 15,000 units

Maximum possible output 20,000 units

TASKS:

- a) Calculate the budgeted profit. [2]
 - b) Calculate the budgeted break-even point. [3]
 - c) The sales manager believes that if she was allowed to spend an extra £10,000 on marketing, the company would be able to sell 14,500 units at a price of £200 per unit. Calculate the estimated profit based on the sales manager's figures. [4]
 - d) The production manager believes that if he implemented a cost reduction programme he could reduce direct materials by 10%; direct labour by 10%; and variable overheads by 5%. He also thinks that he could achieve a saving of £65,000 on fixed overheads. Calculate the profit based on selling 15,000 units at £190 each. [5]
 - e) On the graph paper provided draw a graph identifying fixed costs, variable costs, total costs, total revenue, break-even point and margin of safety: label horizontal and vertical axes. (The graph need not be to scale) [6]
4. a) A jobbing firm's basic rate is £14 per hour and overtime rates are time and a half for evenings and double time for weekends. The following data are recorded for two jobs:

	JOB W/17/43	JOB P/16/42
	Hours (clock)	Hours (clock)
Normal time	400	210
Evening time	50	64
Weekend	10	20

TASKS

Calculate the labour cost chargeable to each job in the following circumstances:

- i Where overtime is worked occasionally to meet the company's production requirements. [4]
- ii Where overtime is worked to facilitate the customer and bring forward the delivery/completion date, in other words at the customer's request. [6]
- b) Explain the relationship between perpetual inventory and continuous stocktaking. [10]

5. The standard cost of making one unit is as follows:

Direct material	7 kilos at £5 per kilo
Direct wages	3 hours at £18 per hour

The actual cost of a batch of 100 units was:

Direct material	£3,710 (745 kilos)
Direct wages	£5,960 (280 hours)

TASKS

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

6. Investin plc has a limited capital budget available for investment in suitable projects this year, and has short-listed two possible choices. Details are as follows:

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

Investin's cost of capital is 8%

Extracts from NPV tables are as follows:

Year	8%	9%	10%
1	.926	.917	.909
2	.857	.841	.826
3	.794	.772	.751
4	.735	.708	.683
5	.630	.650	.621

TASKS

- Calculate the payback period for EACH project. [3]
- Calculate the accounting rate of return for EACH project. [4]
- Calculate the NPV for EACH project. [6]
- State which project you would recommend and why. [2]
- Explain briefly why a '**Post Audit Review**' might be undertaken. [5]

7. Write notes on FOUR of the following:

- Life cycle costing
- Backflush costing
- Activity based costing
- Target costing
- Service costing
- Contract costing

[5 each]