

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER, 2011

DEGREE/DIPLOMA AND YEAR OF STUDY : DIP. COM II
TITLE OF PAPER : INTRODUCTION TO COST ACCOUNTING
COURSE CODE : AC 214 / IDE AC 203
TIME ALLOWED : THREE HOURS

- INSTRUCTIONS:
1. THE TOTAL NUMBER OF QUESTIONS ON THIS PAPER IS FIVE(5)
 2. ANSWER QUESTION ONE AND ANY OTHER THREE QUESTIONS.
 3. THE MARKS AWARDED FOR A QUESTION / PART ARE INDICATED AT THE END OF EACH QUESTION / PART OF QUESTION.
 4. WHERE APPLICABLE, SUBMIT ALL WORKINGS AND CALCULATIONS.

NOTE: YOU ARE REMINDED THAT IN ASSESSING YOUR WORK, ACCOUNT WILL BE TAKEN OF ACCURACY OF THE LANGUAGE AND THE GENERAL QUALITY OF EXPRESSION, TOGETHER WITH THE LAYOUT AND PRESENTATION OF YOUR FINAL ANSWER.

SPECIAL REQUIREMENTS: NONE

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR.

Question One

Kazo Ltd is labour intensive and it uses a standard absorption (full costing) in evaluating its products. The following information is provided for period 4:

Normal capacity, in direct labour hours is 9600

Budgeted variable production overhead E3 per direct labour hour

Budgeted fixed production overhead per four-week financial period E240,000

To produce one unit of output takes two hours of labour

Actual figures produced for the four-week period are as follows:

Production in units 5000

Variable production overhead incurred E28,900

Fixed production overhead incurred E118,000

Actual direct labour hours worked 9300

Required:

- a) Total variable overhead variance (5 Marks)
- b) Variable overhead expenditure /spending variance (4 Marks)
- c) Variable overhead efficiency variance (4 Marks)
- d) Total fixed overhead variance (4 Marks)
- e) Fixed production overhead expenditure variance (4 Marks)
- f) Fixed production overhead volume (denominator) variance (4 Marks)

(Total: 25 Marks)

Question Two

You have been instructed to prepare a cash budget for December 2011 for Siza Ltd. The following information is available about the country's operations.

- The cash balance 1st December will be E40,000
- Actual sales for October and November and expected sales for December are as follows:

	<u>October</u>	<u>November</u>	<u>December</u>
	<u>E</u>	<u>E</u>	<u>E</u>
Cash sales	65,000	70,000	83,000
Credit sales	400,000	525,000	6000,000

- Sales on account(credit) are collected over a three (3) month period in the following ratio (pattern):
 20% collected in the month of sale
 60% collected in the month following sale
 18% collected in the second month following sale
 The remaining 2% is uncollectible.
- Purchases of stock will total E280, 000 for December. 30% of a month's stock purchases are paid during the month of purchase. The accounts payable remaining from November's stock purchases total E161, 000 all of which will be paid in December.
- Selling and administrative expenses are budgeted at E430, 000 for December. Of this amount, E50, 000 is for depreciation. ,
- A new machine for the marketing department costing E76, 000 will be purchased for cash during December, and dividends totaling E9000 will be paid, during the month.
- The company must maintain a minimum cash balance of E20, 000. An open line of credit is available from the company's bank as required.

Required:

Prepare a cash budget for December. Show supporting schedules for the collections from debtors (credit sales) and for the payments to creditors (credit purchases).

(Total: 25 Marks)

Question Three

ABC Ltd is a manufacturer of hand- made stools. The company has experienced a steady growth in its sales for the past four years. Increased competition, however, has led the Director Mr. Obass to believe that an aggressive advertising campaign will be necessary next year to maintain the company's present growth. To prepare for next year's advertising campaign, the company's accountant presents the following data for the current year 2011.

Variable costs (per stool): E

Direct labour	8.00
Direct materials	3.25
Variable overhead	<u>2.50</u>
	<u>13.75</u>

Fixed costs:

Manufacturing	25,000
Selling	40,000
Administrative	<u>70,000</u>
Total fixed costs	<u>135,000</u>

Sales price per stool 25

Expected sales, 2011

(20,000 stools) 500,000

Income tax rate 40%

Mr. Obass has set the 2012 sales target at a level E550, 000 or 22,000 stools.

Required: Determine the following:

- a) The projected after-tax net profit for 2011 (5 Marks)
- b) The break-even sales in units for 2011 (5 Marks)
- c) The after-tax net profit for 2012 if an additional fixed selling expense of E11250 is spent for advertising in 2012 in order to attain the 2012 sales target.
- d) The break-even sales in money for 2012 if the additional E11250 is spent for advertising (4 marks)
- e) The sales in money required to equal 2011; after-tax net profit, if the additional E11250 is spent for advertising in 2012 (4 Marks)
- f) The maximum amount that can be spent on advertising at sales level 22 000 stools, if an after-tax net profit of E60, 000 is desired. (4 Marks)

(Total: 25 Marks)

Question Four

A. Khoza Ltd sells all its goods at a mark-up of 33 1/3 %. On 1 October 2010, fire occurred, destroying some of the stock housed in Khoza's warehouse.

Additional information:

- i) The financial year ends on 31 December each year
- ii) Stock of merchandise at 1 January, 2010 amounted to E86, 000.
- iii) The following figures appeared in the books for the period 1 January, 2010 to 1 October, 2010:

Selling expenses	E8204
Railage inwards	2500
Sales	321000
Purchases	267,500
Import Duties	10,050
Roulage on Sales	12000

- iv) Stock saved from the fire amounted to E108, 880

Required: Calculate the stock lost in the fire (All workings must be shown) (10 Marks)

B. Use the following question below:

- 1 January balance 100 units @ E5.00 each
- 3 March issued 40 units
- 4 June bought 50 units @E5.50
- 6 June bought 50 units @ E6.00
- 9 September issued 70 units

Required: Using the FIFO perpetual inventory system, compute the value of issues and the value of closing inventory on 9 September. (10 Marks)

- c) In periods of rapid inflation, which method of inventory valuation would you recommend and why? (5 Marks)

(Total:25 Marks)

Question Five

A. Distinguish between Job Order costing and process costing. (5 Marks)

B. Shaka Ltd uses process costing. The following information is available.

Put into production process- 12000 units

Normal loss – 10% of input

Completed units 7000

Ending work-in-process were 2000 units which were 100% complete with respect to direct materials, 70% complete with respect to Direct Labour and 50% of complete with respect to factory overheads. Losses are identified when units are 100% complete (at the end of the production process). Losses are sold at scrap value of E0.10 per unit.

Costs incurred were:

Direct materials E54, 120;

Direct labour E30, 600 and

Factory overheads E196, 000

Required: Prepare the following:

- i) Cost per equivalent unit of each of the elements of costs (6 Marks)
- ii) Value of the relevant outputs (9 Marks)
- iii) Work in process account (3 Marks)
- iv) Abnormal loss account (2 Marks)

(Total: 20 Marks)