

CHRISTIAN SERVICE UNIVERSITY COLLEGE KUMASI CSUC SCHOOL OF BUSINESS DEPARTMENT OF ACCOUNTING & FINANCE BACHELOR OF BUSINESS ADMINISTRATION End of Second Semester Examination, 2019/2020 Academic Year Level 200 CSAD 374: COST ACCOUNTING TWO (2)

JUNE, 2020

[70 marks]

INSTRUCTIONS TO CANDIDATES:

- Answer Two(2) Questions (for 35 marks each)
- Write your answer on the **answer sheets provided**
- Your answer for EACH QUESTION should be FOUR (4) pages minimum.
- Please present your answer in ESSAY form as much as possible unless otherwise stated.
- Write your index number clearly at the top of every page of the answer sheets used.

Note: Marks will be awarded for:

- Introduction
- Content
- Conclusion
- Evidence of Further Reading
- Originality and Independence (Cheating would be penalized and integrity rewarded)
- Correct grammar, clarity of expression and logical presentation of facts.
- Answers to questions must be well referenced.

QUESTION ONE (1a)

distinct miles of production. Then production costs per and and senting price are as rono (5).						
	Shoes	Bags	Belts			
production (units)	3,000	2,000	5,000			
	GH¢	GH¢	GH¢			
Material cost	18	26	30			
wages	7	9	10			
Variable overheads	2	3	22			
Fixed overheads	5	8	39			
	32	46	52			
Selling price	40	60	61			
profit	<u>8</u>	14	<u>9</u>			

Yinzor Limited is a manufacturing company in Sandema. The company is engaged in three (3) distinct lines of production. Their production costs per unit and selling price are as follows:

Management wants to discontinue one line and is however certain production in the other two lines will increase by 50%. It intends to discontinue the line which produces shoes as it is less profitable.

- **a.** Do you agree to the scheme in principle? If so, do you think that the line which produces shoes should be discontinued?
- **b.** comment on your decision

QUESTION ONE (1b)

Management accounting adoption and applications by organization is optional in spite of relevance and usefulness to industry. Its adoption and application by Ghanaian organizations, even within Ghana's public sector organizations is less, relative to financial accounting.

REQUIRED

Indentify and discuss any **five (5 factors** that account for its least adoption and application and suggest possible solutions.

QUESTION TWO (2a)

Mr. Daboug, gardener in Navrongo is planning his production for next season, and has asked you as a cost accountant, to recommend the optimal mix of vegetable production for the coming year. He has given you the following data relating to the current year:

	Potatoes	Turnips	Parsnips	Carrots
Area occupied (acres)	25	20	30	25
Yield per acre (tonnes)	10.00	8.00	9	12
Selling price per tonne (GH¢)	100	125	150	135
Variable cost per acre (GH¢):				
Fertilizers	30	25	45	40
Seeds	15	20	30	25
Pesticides	25	15	20	25
Direct wages	400	450	500	570

Fixed overhead per annum is GH¢54,000

The land that is being used for the production of carrots and parsnips can be used for either crop, but not for potatoes and turnips. The land being used for potatoes and turnips can be used for either crop, but not for carrots and parsnips.

In order to provide an adequate market service, the gardener must produce each year at least 40 tonnes each of potatoes and turnips and 36 tonnes each of parsnips and carrots.

- (a) You are required to present a statement to show:
 - i) The profit for the current year
 - ii) The profit for the production mix that you would recommend.
- (b) Assuming that the land could be cultivated in such a way that any of the above crops could be produced and there was no market commitment, you are required to:
 - i. Advise the market gardener on which crop he should concentrate his production;
 - ii. Calculate the profit if he were to do so
 - iii. Calculate in Ghana cedis the break-even point of sales

QUESTION TWO (2b)

Environmental sustainability has become a global concern, as such, civil society and international organizations are advocating for implementation of suitable policies and measures by countries and for that matter institutions and individuals to ensure environmental sustainability. Every individual and organization therefore has a role to play to ensure environmental sustainability.

REQUIRED

As the cost and management accountant of your organization, discuss any **five (5)** specific areas in your organizations operations you can undertake to contribute environmental sustainability and the challenges that may arise with such measures.

Question Three (3a)

Rockland Limited is a constructional materials retail company in Bolgatanga. Rockland Limited projected purchase and sales for the second half of 2019 are given below:

Sales Purchases	
GH¢	GH¢
180,000	120,000
200,000	150,000
140,000	100,000
290,000	200,000
230,000	180,000
360,000	250,000
	Sales GH¢ 180,000 200,000 140,000 290,000 230,000 360,000

Other information is as follows:

- 1. The company has three bills payable of GH¢100,000, GH¢150,000 and GH¢90,000, which are to be paid in July, September and October respectively.
- 2. Fixed Assets will be bought in August and October at GH¢200,000 and GH¢300,000 respectively.
- 3. The company pays 50% of trade creditors in the month of purchases, 25% in the second month and 20% in the third month, the remaining 5% being cash discount.
- 4. The cashbook balance at the end of August is expected to be $GH\phi25,990$
- 5. Operating expenses are GH¢35,000 per month and are paid for when they are incurred.
- 6. The minimum monthly cash balance required should be $GH\phi10,000$ and funds can be borrowed in multiples of $GH\phi10,000$ to make up for any deficiency from the bank.
- 7. The company expects to receive dividends from investments of $GH \notin 150,000$ and $GH \notin 200,000$ respectively in August and September.
- 8. Credit customers are usually allowed 2½% cash discount on the if payment is made promptly, 1% cash discount on the 15th day after sale and no discount in 30 days' time. A penalty of 5% is payable on all debts due and unpaid after the end of the first month. Usually, 60% of sales are paid promptly, 20% within 15 days on sale, 15% by 30 day's time and the remainder in the second month after sale.
- 9. Depreciation cost will be constant per month at GH¢12,000

10. Borrowed funds are payable immediately cash is available.

Required:

Prepare a month-by-month cash budget for September, October, November and December 2019

QUESTION THREE (3b)

Budgetary control and standard costing are management tools, mostly employed by management to assist in proving management with information on organizations' cost, for cost control and reduction. You are the management accountant of the Skin Solutions Limited, a shea butter and skin lotion Company in Tindong, in Bolgatanga, which recently adopted budgetary control and standard costing as part its management tools. Skin Solutions Limited has recorded some variances in its operations, and is wondering as to, to investigate or not.

Required

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- a) Discuss, **five (5)** factors likely to be considered in deciding whether to investigate or not the variance and
- b) Discuss **any Three (3)** of the importance of recognizing the behavioral aspects in effective system

QUESTION FOUR (4a)

The Tindanas Limited manufactures a single product, with a variable manufacturing cost of $GH \notin 1200$ per unit and a selling price of $GH \notin 2000$ per unit. Fixed production overheads are $GH \notin 9,000,000$ per period. The company operates a full absorption costing system and the fixed overheads are absorbed into the cost of production on the basis of a normal activity of 15,000 units per period at the rate of $GH \notin 600$ per unit. Any under or over absorbed overheads are written off to the profit and loss account at the end of each period. It may be assumed that no other expenses are incurred.

Summarized below are the Company's manufacturing and trading results showing quantities only for periods 2 and 3

	Period 2	Period 3
	(Units)	(Units)
Opening stock	5,000	11,000
Production	<u>17,000</u>	<u>13,000</u>
	22,000	24,000
Less closing stock	<u>11,000</u>	<u>6,000</u>
Sales	<u>11,000</u>	<u>18,000</u>

The Managing Director of The Tindanas Limited, who has recently returned from a course of Marginal costing, has calculated that sales have increased by 7,000 units in period 3, the company's profits should increase by $GH\phi5,600,000$. However, the results produced by the accountant show that profits in period 2 were $GH\phi3,400,000$ and in period 3 were $GH\phi2,400$, 000. The Managing Director is somewhat surprised.

Required:

a) Produce columnar revenue accounts for both periods showing how the profits of $GH\phi^2$,400,000 and $GH\phi^3$,400,000 were obtained

a) Carefully explain with supporting calculations:

(i) The reasons for the reduction in reported profits between the two periods.

(ii) How the Managing Director has calculated that profits should increase by GH¢5,600,000 in period 3.

(iii) Why profits have not increased by GH¢5,600,000 in period 3.

QUESTION FOUR (4b)

With specific reference, identify and demonstrate any **five** (5) specific practical relevance of Management accounting studies to business organization.