## PRINCIPLES OF COST ACCOUNTING 2

### 1. GENERAL COMMENTS

The standard of the paper was comparable to that of the previous year. The questions were within the limits of the WAEC examination syllabus and the requirements of the questions were clearly stated with no ambiguities. The questions were designed to test candidates' knowledge and understanding of the various Cost Accounting principles as well as their ability to apply the principles in practical situations.

Performance of candidates was lower than that of the previous year.

### 2. SUMMARY OF CANDIDATES' STRENGTH

Candidates were able to:

(1) state the reasons for cost classification;
(2) list the documents used in the store;
(3) explain the purpose of retention in cost accounting;
(4) distinguish between joint products and by products;
(5) list the characteristics of job order costing;
(6) explain the various types of standards;
(7) compute overheads absorbed by different departments;
(8) compute the cost of producing an order using batch costing;
(9) calculate the:
- Variable cost per unit;
- Contribution per unit;
- Break-even point in units and value.

(10) compute the wage rate for normal work;
(11) compute the overtime premium rate.

### 3. SUMMARY OF CANDIDATES' WEAKNESSES

Candidates were not able to:

(1) classify various costs according to their groups;
(2) explain the importance of fixing the following cost control levels:
- economic order quantity;
- re-order level;
- maximum stock level;
- minimum stock level;
- buffer stock.

(3) compute the over or under absorbed overheads for the different departments;
(4) the profit to be made from the production of 25,000 units;
(5) prepare a cash budget for the first quarter of the year;

(6) compute the total cost of operation under the two different scenarios i.e.
- where the existing workers are allowed to do overtime and
- where more workers are engaged at normal rate

## 4. SUGGESTED REMEDIES

(1) The purpose and basis of cost classification should be well explained to candidates.
(2) Candidates should be thought not only the meaning of the cost control levels but also to understand the importance of those measures.
(3) Candidates should be thought to understand that the difference between overhead absorbed and actual overhead incurred is either over absorbed or under absorbed overhead.
(4) The topic of break-even analysis should be well taught especially how to calculate the expected profit at a certain level of production.
(5) Candidates should be taught cash budget especially the timing of the receipts from debtors and payment to creditors.
(6) Candidates should be taught to apply the principles in labour remuneration, to compute the cost of labour to include all expenses on workers.

## 5. DETAILED COMMENTS

### QUESTION 1

This was a theory question on Cost Classification.

**Candidates were required to:**

**(a) state four reasons for Cost Classification;**

**(b) classify a list of different cost under the appropriate bases.**



Candidates were able to state the reasons for Cost Classification.

Candidates were, however, not able to classify the different types of cost under the different bases provided. Costs were generally placed under wrong classification whiles some candidates even repeated types of cost under two different bases.

Candidates were expected to answer the question as follows:

**(a)** Reasons for Cost Classification
(i) to ascertain cost of products and services;
(ii) for cost control purposes;
(iii) to fix selling prices of products and services;
(iv) for production planning;
(v) for cost analysis;
(vi) for budgeting and budgetary control;

(vii) for decision making;
(viii) for stock valuation purposes;
(ix) for profit planning.

(b)

| Nature | Behaviour | Function | Time/Relevance | Product |
|---|---|---|---|---|
| Labour cost | Fixed cost | Production cost | Sunk cost | Direct cost |
| Expenses | Mixed cost | Administration cost | Historical cost | Indirect cost |
| Material cost | Variable cost | Distribution cost | Budgeted cost | |

**QUESTION 2**

This was a theory question on Materials Control.

**Candidates were required to:**

**(a) list five documents used in the store and**

**(b) state the importance of fixing the following stock control levels and measures:**

**i. economic order quantity;**
**ii. re-order level;**
**iii. maximum stock level;**
**iv. minimum stock level;**
**v. buffer stock.**

Majority of the candidates were able to list documents used in the store. A few candidates, however, listed documents that were not used in the store like purchases and sales journals.

Candidates were not able to:

- state the importance of fixing stock control levels;
- most candidates rather defined the levels instead of stating the importance of fixing stock control levels.



Candidates were expected to answer the question as follows:

Stores documents include:

(i) stock inspection report;
(ii) goods received note;
(iii) bin card;
(iv) stores ledger;
(v) materials requisition form;
(vi) purchases requisition form;
(vii) stores register/stock record cards;
(viii) stores issue voucher;
(ix) materials transfer note;
(x) materials return note;
(xi) stock verification report;

(xii) bill of materials;
(xiii) purchases order.

**(b)** Importance of fixing stock control levels

(i) Economic order quantity: This quantity is fixed to minimize the total cost of ordering and carrying materials.

(ii) Re-order level: This is fixed in order to avoid overstocking or understocking or to control stock levels

(iii) Maximum stock level: It is fixed to prevent overstocking and its associated cost.

(iv) Minimum stock level: It is fixed to prevent stock outs and the inconveniences associated with understocking.

(v) Buffer stock: This is fixed to serve as a cushion and to prevent stoppages in production if the lead time extends beyond expectation or if demand increases during lead time.

**QUESTION 3**

This was an essay type question on costing methods.

**Candidates were required to:**

**(a) explain the purpose of retention in Contract Costing;**

**(b) distinguish between joint products and by-products;**

**(c) state four characteristics of Job Order Costing.**

Candidates were able to:

- explain the purpose of retention in contract costing as being withheld against possible defects in the contract;
- distinguish between Joint products and by-products;
- list the characteristics of job costing.

Candidates were expected to answer the question as follows:

**(a)** The purpose of retention in contract costing

The purpose of retention in contract costing is to ensure that the contractor properly completes the activities required of them under the contract.

**(b)** Distinction between joint products and by-products

Joint products are two or more products which are of relatively comparable values which arise from the processing of the same raw materials such that none of them can be referred to as a major product, while a by-product is an incidental product that occurs as a result of the production of the main product and is of a relatively low value as compared to the main product.

**(c)** Characteristics of Job Order Costing

(i) jobs are executed according to customers' specification;

(ii) jobs are mostly done in the company's premises;
(iii) each job can be distinguished from other jobs;
(iv) the job consists of a single order;
(v) separate records are kept for each job;
(vi) the price of the job is agreed with the customer based on cost estimates appropriate percentage of profit before the execution of the job;
(vii) all cost related to a job are kept on a job cost sheet and later transferred to the job account which is also debited with the apportioned overheads;
(viii) the job is a cost unit on its own.

**QUESTION 4**

This was an essay type question on Standard Costing.

**Candidates were required to:**

**(a) explain Standard Costing.**

**(b) explain the following types of standard:**

**i. attainable standard;**
**ii. ideal standard;**
**iii. basic standard;**
**iv. current standard.**

Candidates were able toexplain attainable, ideal, basic and current standards adequately.
Candidates were however not able to:

- explain Standard Costing. Many candidates gave the explanation of **Standard Cost** instead of **standard costing.**
- Some candidates could not differentiate between attainable standard and ideal standards very well i.e. attainable standard being achievable under efficient but not perfect conditions and ideal standard under perfect working conditions.

Candidates explained both as achievable under efficient working conditions.
Candidates were expected to answer the question as follows;

**(a)** Standard Costing

Standard costing is a costing technique that predetermines cost of products and services and compares these predetermined costs with actual cost to determine variances.

**(b)** (i) attainable Standard

These are standards set to be achieved under normal and efficient working conditions. Such standards consider normal losses and all other operational setbacks.

(ii) ideal Standards

These are standards set to be achieved under perfect working conditions with no considerations for losses or operational setbacks.

(iii) basic Standards

These are standards set to be used over a long period of time without any change irrespective of changes in operating conditions.

(iv) current Standard

These are standards set to be used over a short period of time. They are developed out of Basic Standards and are based on current working conditions.

**QUESTION 5**

This question was a practice question on accounting for Overheads.

Candidates were required to compute for each department:

**(a) total overhead absorbed**

**(b) over or underabsorbed overheads**

Candidates were able to compute overheads absorbed for the different departments.

Candidates were, however, not able to:

- compare actual overheads to absorbed overheads and come out with the amount of over or under absorbed overheads for each department.
- compare total of actual overhead to the total absorbed overhead to enable them arrive at total over or under absorbed overhead.

Other candidates indicated over or under absorbed for each department without indicating any figures.

Candidates were expected to compute the variances as follows:

**(a)** OVERTURN LIMITED

| DEPARTMENT | | ABSORBED OVERHEAD |
|---|---|---|
| | | **D** |
| Production | 50% x 24,300 | 12,150 |
| Administration | D10 x 2,000 | 20,000 |
| Sales | D5 x 1,600 | 8,000 |
| Distribution | D10 x 1,600 | 16,000 |
| Finance | 30% x 14,200 | 4,260 |

**(b)**

| DEPARTMENT | ACTUAL OVERHEAD | ABSORBED OVERHEAD | ABSORPTION OVER/UNDER |
|---|---|---|---|
| | **D** | **D** | **D** |
| Production | 12,000 | 12,150 | 150 over absorbed |
| Administration | 24,000 | 20,000 | 4,000 underabsorbed |
| Sales | 14,000 | 8,000 | 6,000 underabsorbed |
| Distribution | 10,000 | 16,000 | 6,000 over absorbed |
| Finance | 4,000 | 4,260 | 260 over absorbed |

**QUESTION 6**

This was a practice question on batch costing.

Candidates were required to prepare statements to show:

**(a) cost of executing an order for 500 cartons of fruit juice.**

**(b) the invoice price of the order which is sold at a margin of 20% on sales.**

Candidates were able to:

- compute the cost of producing the order correctly including those costs which were quoted per batch and per carton;
- compute the profit margin on the contract and added it to the cost of production to obtain the invoice price;
- some candidates denominated all the cost per carton and multiplied by 500 cartons which also produced the correct answer.

Candidates were expected to answer the question as follows;

**(a)**

**COCONUT LIMITED**

Cost of Producing Order for 500 Cartons of Fruit Juice

| | | **D** |
|---|---|---|
| Setup Cost | D12,000 x 1 | 12,000 |
| Materials | D364 x 100 x 5 | 182,000 |
| Labour | D240 x 100 x 5 | 120,000 |
| Factory Overhead | D1,620 x 5 | 8,100 |
| Power | D1,220 x 5 | 6,100 |
| Admin Overheads | D15,000 x 1 | 15,000 |
| Package | D50 x 100 x 5 | 25,000 |
| Consumables | D1,200 x 5 | 6,000 |
| Cost of Order | | 374,200 |

**(b)** Invoice Price

| | |
|---|---|
| Total cost of order | 374,200 |
| Profit (374,200 x 0.25) | 93,550 |
| Invoice Price | 467,750 |

**QUESTION 7**

This was a practice question involving marginal costing.

**Candidates were required to calculate:**

**(a) variable cost per unit;**
**(b) contribution per unit;**
**(c) break-even point in units and value;**
**(d) profit to be made on the production and sale of 25,000 units.**

Candidates were able to calculate:

(a) variable cost per unit;
(b) contribution per unit;
(c) break-even point in units;
(d) break-even point in value.

Candidates were not able to:

- calculate the profit to be made for the production of 25,000 units. This is because they used the formula that enabled them to compute the level of production and obtained a given targeted profit but could not make the profit the subject of that formula;
- most candidates computed variable cost per unit wrongly as **total production cost** and such candidates got only the formula correct.

Candidates were expected to answer the question as follows:

ODUMFA ENTERPRISE

**(a)** Variable Cost per unit = Total Cost – Fixed Cost / Units produced
= Le 14,999,870 – Le 399,870
= Le 20,000
= Le 730

**(b)** Contribution per unit = Sales – Variable Cost
= Le 1,000 – Le 730
= Le 270

**(c)** **(i)** Break-even point in units = Fixed Cost / Contribution per unit

= Le 399,870 / Le 270

= 1,481 units

**(ii)** Break-even point in value = Fixed Cost x Selling price / Contribution per unit

= 1,481 x Le 1, 000

= Le 1,481,000

**(d)** Profit = Sales – (Fixed Cost + Variable Cost)

= Le 25,000,000 – (Le 399,870 + Le 18,250,000)

= Le 25,000,000 – Le 18, 649,870

= Le 6,350,130

**QUESTION 8**

This was a practice question on the preparation of a cash budget.

**Candidates were required to prepare a cash budget for the first quarter of 2021 showing the net cash flow for each month.**

**Candidates were able to enter the following cash receipts and payments in the cash budget correctly:**

i. **rent receivable;**
ii. **dividend received;**
iii. **wages;**
iv. **expenses.**



Candidates were not able to:

- align receipts from sales and payment for purchases in the correct months;
- Compute the receipts from sale of assets correctly;
- Some candidates included the loss on disposal of assets as a cash payment.

Candidates were expected to answer the question as follows:

NTAR ENTERPRISE
CASH BUDGET 2021

| | **January (GH¢)** | **February (GH¢)** | **March (GH¢)** |
|---|---|---|---|
| Collection (Debtors) | 14,500 | 16,800 | 18,200 |
| Rent received | 2,000 | 2,000 | 2,000 |
| Sale of asset | | | 18,000 |
| Dividend | | 4,000 | |
| Total receipt | 16,500 | 22,800 | 38,200 |
| | | | |
| Payments | | | |
| Purchases | 14,560 | 16,000 | 17,280 |
| Wages | 5,000 | 5,000 | 5,000 |
| Expenses | 2,500 | 2,500 | 2,500 |
| Total payments | 22,060 | 23,500 | 24,780 |
| Cash flow | (5,560) | (700) | 13,420 |
| Beginning balance | **8,500**✓ | 2,940 | 2,240 |
| Closing balance | 2,940 | 2,240 | **15,660**✓ |

**QUESTION 9**

This was a practice question on labour remuneration.

**Candidates were required to compute:**

**(a) wage rate for normal work;**

**(b) overtime premium rate;**

**(c) total cost of labour to the company to meet increased demand if;**

**i. existing workers were allowed to do overtime at time and a quarter;**

**(d) 30 additional workers were employed at normal rate.**

Candidates were able to compute:

(a) wage rate for normal work;

(b) overtime premium rate.

(c) Candidates were, however, not able to:

(i) total cost of labour if existing workers were allowed to do overtime;

(ii) total cost of labour if 30 addition workers were employed;

- most candidates who attempted this question omitted the transport expenses of Gh¢ 50 per week in the computation of the total cost in both cases.

Candidates were expected to answer the question as follows:

WESTPOINT LIMITED

**(a)** Wage rate for normal work = Wages per week / Hours per week

= GH¢480 / 40 hrs

= GH¢12 per hour

**(b)** Overtime premium rate = 1.25 x normal rate

= 1.25 x GH¢12

= GH¢15 per hour

**(c)** Total cost of operation using overtime

| | | | | **GH¢** |
|---|---|---|---|---|
| Normal wages | = | 120 x 480 | = | 57,600 |
| Overtime wages | = | 120 x 10 x 15 | = | 18,000 |
| Transport | = | 120 x 50 | = | 6,000 |
| Social security | = | 57,600 x 10% | = | 5,760 |
| TOTAL | | | = | 87,360 |

**(d)** Total cost of operations for employing 30 additional workers

| | | | | **GH¢** |
|---|---|---|---|---|
| Normal wages | = | 150 x 480 | = | 72,000 |
| Transport | = | 150 x 50 | = | 7,500 |
| Social security | = | 72,000 x 10% | = | 7,200 |
| TOTAL | | | = | 86,700 |