PRINCIPLES OF COST ACCOUNTING 2

1. GENERAL COMMENTS

The Chief Examiners reported that the standard of the paper was comparable to that of previous years' examinations. The requirements of the questions were clearly stated with no ambiguities. All the rubrics were also clearly stated. The performance of candidates showed a marginal improvement on the previous year's performance.

2. SUMMARY OF CANDIDATES' SRENGTHS

The Chief Examiner noted that some of the candidates were able to demonstrate understanding in the following areas of the syllabus:

(i) relevant costing;
(ii) cost classification;
(iii) economic order quantity and the effects of keeping stocks below the minimum level;
(iv) activity based costing.

3. SUMMARY OF CANDIDATES' WEAKNESSES

The Chief Examiner reported that some of the candidates lost vital marks due to challenges in answering questions from the following topics:

(a) cost accounts;
(b) income statement for service organization;
(c) break-even chart from a given information;
(d) payroll sheet for a company which has three employees;
(e) material purchases budget from the materials usage budget.

4. SUGGESTED REMEDIES FOR THE WEAKNESSES

The following remedies were recommended to address the weaknesses identified:

(a) teachers should help their students to understand specific transactions that are recorded in financial account and cost accounts separately;
(b) candidates should be well taught on the preparation of income statement for service organizations;
(c) teachers should not limit the teaching of break-even to the calculations but should help students on how to draw break-even chart;
(d) the preparation of payroll should be well practiced in class for learners to get a hands-on experience on the topic
(e) the preparation of materials purchases budget from a materials usage budget should be emphasized.

5. DETAILED COMMENTS ON QUESTIONS

QUESTION 1

This was a theory question on classification of cost.

Candidates were required to:

(a) Explain Relevant Costing;

(b) Explain the following basis of classifying cost:
- (i) Function;
- (ii) Behavior;
- (iii) Nature.

(c) State three purposes of cost classification.

This question was very popular with candidates and the performance was very good. However, some candidates used the words in the question to answer the question. For example, classification based on nature is to classify cost according to their nature. In this case the candidates only earn full marks if examples are given.

Candidates were expected to answer the question as follows:

(a) **Relevant Cost**

It is cost that will differ between alternative decisions to be made by management.

(b) **Bases of Cost Classification**

(i) Classification by function is the grouping of costs according to sections or departments in a firm. For example, the production and administration departments.

(ii) Classification by behaviour is the grouping of costs according to how they react to changing levels of output. For example, fixed cost and variable cost.

(iii) Classification by nature is the grouping of costs according to how they naturally occur into materials, labour and expenses.

(c) **Purposes of Classifying Costs**

(i) For fixing selling prices;
(ii) For planning purposes;
(iii) For cost control purposes;
(iv) For decision making;
(v) For performance evaluation;
(vi) For budgetary control;
(vii) For determination of profitable and unprofitable activities;
(viii) For profit determination;
(ix) For cost analysis;
(x) For cost ascertainment;
(xi) For stock valuation.

QUESTION 2

This was an essay type question on materials Control.

Candidates were required to:

(a) Explain the term "Economic Order Quantity"
(b) State three effects on a manufacturing firm if its stocks fell below the minimum level
(c) State the purpose of the following store documents
    (i) Stores issue voucher
    (ii) Bin card
    (iii) Stock verification sheet

This was also a popular question and candidates provided very apt answers to all the requirements. Candidates scored maximum marks for this question.

Candidates were expected to answer the question as follows:

(a) **Economic Order Quantity**

It is the ideal or optimal quantity of stock a company should order to meet demand while minimizing ordering and holding costs.

(b) **Effects of Stock Falling Below Minimum Level**

(i) There could be stock out;
(ii) It could lead to production stoppages;
(iii) There can be low sales;
(iv) Loss of loyal customers;
(v) It could lead to low profits;
(vi) Loss of goodwill;
(vii) Placing of expensive orders as a result of panic buying.

(c) **Purpose of Store Documents**

(i) **Stores Issue Voucher:** It serves as evidence of materials issued by the storekeeper
(ii) **Bin Card:** To record receipts and issues of stock items and shows the balance in quantities after each movement.
(iii) **Store Verification Sheet:** To record the quantities of items counted during stock taking.

QUESTION 3

This was an essay type question on Activity Based Costing.

Candidates were required to:

(a) Explain Activity Based Costing.
(b) State the difference between cost drivers and cost pools.
(c) Identify four reasons for which a firm may adopt Activity Based Costing in absorbing. overheads.

Majority of candidates attempted this question and the performance was quite good. However, some candidates were not able to explain in detail, the advantages of activity-based costing and also just stated the uses of activity-based costing instead of stating them as advantages over traditional product costing.

Candidates were expected to answer the question as follows:

(a) **Activity Based Costing**

Activity Based Costing is a method of absorbing overheads using the major activities that generate cost as a basis of absorption.

(b) **Difference Between Cost Drivers and Cost Pools**

Cost drivers are the activities that generate costs while cost pools are the areas of operation where costs are collected.

(c) **Reasons Why a Firm May Adopt Activity Based Costing**

(i) It gives a more precise cost allocation based on actual usage of resources;
(ii) It improves efficiency of operations;
(iii) It results in better decision making;
(iv) It gives a more accurate cost of production;
(v) It gives more detailed information on cost of activities;
(vi) It helps to determine accurate profit of the business;
(vii) It helps the business to identify inefficiencies in production;
(viii) It helps management to fix realistic prices;
(ix) It helps to identify new areas in an organization that generate cost.

QUESTION 4

This was an essay type question on cost ledgers.

Candidates were required to;

(a) List three transactions recorded in financial accounts but not in cost accounts

(b) State the double entry treatment for six transactions in cost accounts.

Most candidates who attempted this question couldn't list all the transactions as per the question. They also stated the double entry treatment for six transactions in cost accounts wrongly.
The overall performance of candidates on this question was poor.

Candidates were expected to answer the question as follows:

(a) **Transactions Recorded in Financial Accounts Only**

(i) Fines and penalties;
(ii) Discount received;
(iii) Discount allowed;
(iv) Bank charges;

(v) Interest paid or received;
(vi) Gain or loss on disposal of fixed assets;
(vii) Dividend received;
(viii) Cost of issue of shares and debentures.

(b) **Double Entry Treatment**

(i) **Sale of finished products:**

Debit Cost Ledger Control Account,

Credit Sales Costing Profit and Loss Account.

(ii) **Direct expenses incurred**:

Debit WIP Ledger Control Account,

Credit Cost Ledger Control Account.

(iii) **Over-absorption of production overheads**:

Debit Production Overheads Ledger Control Account,

Credit Costing Profit and Loss Account.

(iv) **Completed goods transferred to warehouse:**

Debit Finished Goods Ledger Control Account,

Credit WIP Ledger Control Account.

(v) **Materials returned to supplier**:

Debit Cost Ledger Control Account,

Credit Stores Ledger Control Account.

(vi) **Direct wages allocated to production:**

Debit WIP Ledger Control Account,

Credit Wages Account.

QUESTION 5

This question was a practice question on preparation of a cost sheet involving cost classification

Candidates were required to prepare a cost sheet showing sub totals for:

(i) Prime cost
(ii) Factory overhead
(iii) Cost of production
(iv) Administration overhead
(v) Selling and distribution overheads
(vi) Total cost

Some candidates were not able to classify the costs correctly to show the sub totals for

(i) Prime cost
(ii) Factory overhead
(iii) Cost of production
(iv) Selling and distribution overhead

The following common errors were made by candidates:

(i) Primary packaging was added to selling and administration expenses instead of prime cost;
(ii) Cost of patent was added to selling and distribution expenses instead of prime cost;
(iii) Warehouse repairs was added to factory overheads instead of selling and administration expenses;
(iv) Wages of works foreman was added to prime cost instead of factory overheads;
(v) Carriage of wood was added to factory overheads instead of prime cost.

The overall candidate performance was above average.

Candidates were expected to answer the question as follows:

QUESTION 5

AMOFA AND SONS LIMITED

COST SHEET

		D	D
	Purchase of wood for production	12,000	
	Carriage of wood	400	
	Primary packaging	1,900	
	Wages of production workers	4,500	
	Hire of special tools	2,500	
	Cost of patent	3,400	
(a)	**PRIME COST**		24,700
	Depreciation of plant	1,400	
	Cost of loose tools	1,625	
	Wages of works foreman	4,000	
	Lubricants for factory machines	1,140	
(b)	**FACTORY OVERHEADS**		8,165
(c)	**COST OF PRODUCTION**		32,865
(d)	**Administration Overheads**		
	Accounting training programmes	3,710	
	Stationery	900	
	Computer accessories	1,120	
	Office rent	890	6,620
(e)	**Selling & Distribution Overheads**		
	Trade exhibitions	2,100	
	Salaries of delivery van drivers	2,200	
	Warehouse repairs	2,100	
	Advertisement of finished goods	3,800	10,200
(f)	**TOTAL COST**		49,685

QUESTION 6

This was a practice question on service costing.

Candidates were required to prepare an income statement for a law firm for six months and calculate the average cost per client

Most candidates were not able to determine:

(i) Depreciation of laptops;
(ii) Clerks allowances;
(iii) Transportation cost.

Candidates computed these expenses for the year instead of six months

The calculation of profit and also the average cost per client were invariably wrong.

Candidates' performance on this question was below average.

Candidates were expected to answer the question as follows:

Dzidzor Chambers

Income statement for the half year ending 30th June, 2023

		Le	Le
(a)	Fees charged [160 x Le 2,000]		320,000
	Stationery	3,800	
	Depreciation of Laptops $\left[\frac{Le7{,}500 - 1{,}500}{5 \times 2}\right]$	600	
	Clerks allowance [4 x Le450 x 6 months]	10,800	
	Rent [6 x Le 2,000]	12,000	
	Electricity	10,000	
	Transportation cost [6 x Le 800]	4,800	42,000
	PROFIT		278,000

(b) Average cost per client $= \frac{\text{Total Cost}}{\text{Number of clients}}$

$= \frac{Le\ 42{,}000}{160}$

$= Le\ 262.50$

QUESTION 7

This was a practice question on break-even analysis.

Candidates were required to;

(a) Complete a table showing fixed costs, variable costs, total costs s and total revenue for production levels ranging from 5,000 units to 30,000 units;

(b) Construct a break-even chart using the information in the table completed.

Majority of candidates were able to complete the table in 'a' and as a result scored full marks.

In part 'b' candidates were not able to construct the break-even chart correctly making the following mistakes;

(i) Graphs were not drawn to scale

(ii) Graphs were not or the curves were wrongly labelled

(iii) Curves did not start from the origin or the x-axis

(iv) The construction of the chart was generally poor

Candidates' performance in respect of 'b' was very poor,

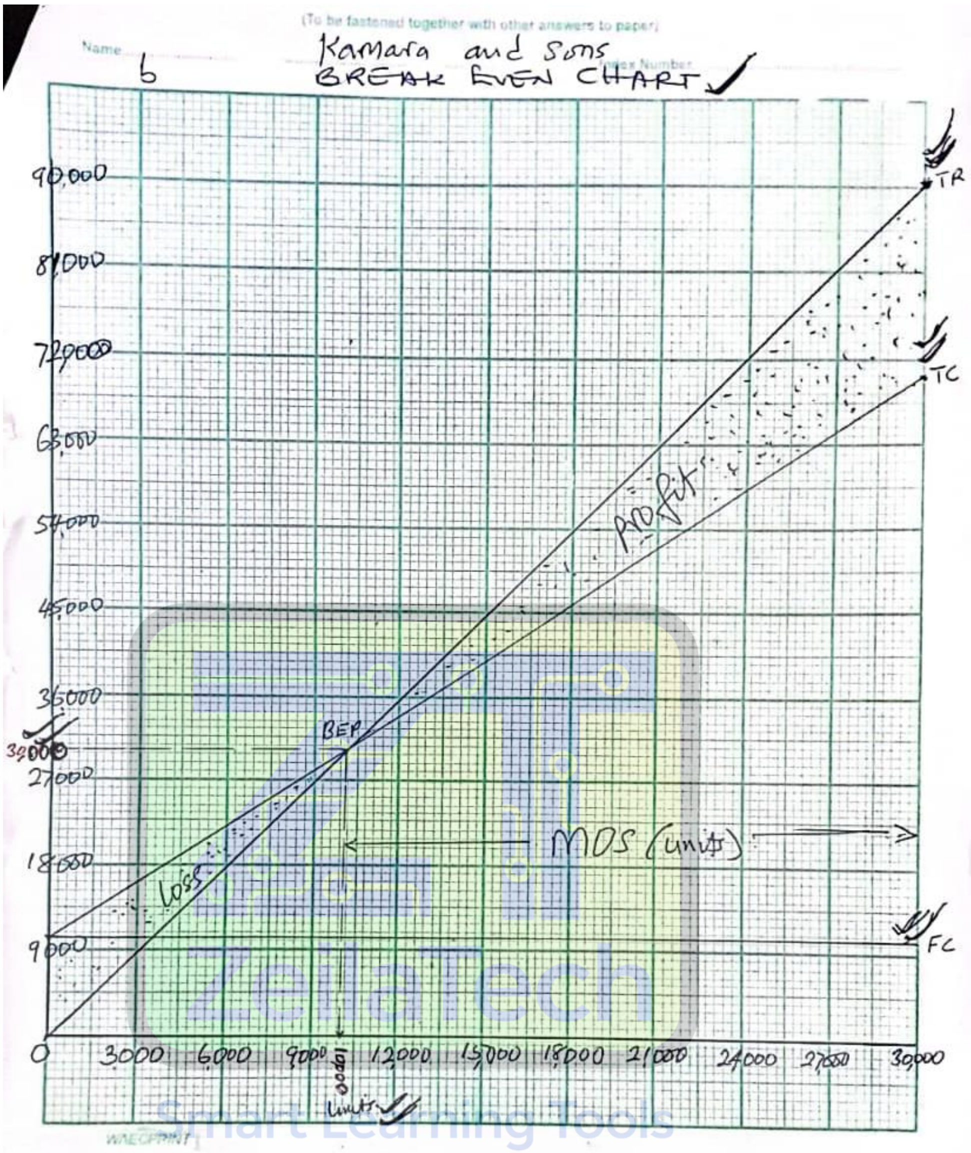
Candidates were expected to answer the question as follows:

(a) Kamara and Sons Limited

OUTPUT(units)	FIXED COST D	VARIABLE COST D	TOTAL COST D	TOTAL REVENUE D
5,000	10,000	10,000	20,000	15,000
10,000	10,000	20,000	30,000	30,000
15,000	10,000	30,000	40,000	45,000
20,000	10,000	40,000	50,000	60,000
25,000	10,000	50,000	60,000	75,000
30,000	10,000	60,000	70,000	90,000

(b)

Cost/Sales



Output

QUESTION 8

This was a practice question on labour remuneration and specifically on the preparation of payroll.

Candidates were required to prepare:

(a) A schedule to show the gross salary for each of three employees of a company;
(b) Payroll for the company for the month of May 2023.

Majority of candidates did not attempt this question and the few who attempted were not able to:

(i) Determine basic wages for the three workers and many candidates computed the piecework wages as basic wages;

(i) Compute social security, provident fund and tax deductions because of the difficulty in computing basic wages;

(ii) determine taxable pay and tax deduction for the employees;

(iii) determine net salary for any of the workers.

Candidates' performance on this question was very poor.

Candidates were expected to answer the question as follows:

(a) **ANGE AMPONSAH LIMITED**

SCHEDULE SHOWING GROSS SALARY

Employee	Time Taken	Normal Hours	Rate Per Hour	Guaranteed Minimum Rate	Basic Wage	Overtime Allow'ce	Rent	Gross Salary
			D	D	D	D	D	D
Araba	220	160	50	8,000	8,000	3,750	560	12,310
Comfort	180	160	50	8,000	8,000	1,250	560	9,810
Bright	150	160	50	8,000	8,000	-	560	8,560
Total				**24,000**	**24,000**	**5,000**	**1,680**	**30,680**

(b) **PAYROLL FOR ANGE AMPONSAH LIMITED**

Employee	Gross Salary	SSF	Provident Fund	Staff Loan	Taxable Income	Tax	Total Deduction	Net Pay
Araba	12,310	440	800	500√	11,870	987	2,727	9,583
Comfort	9,810	440	800	-	9,370	737	1,977	7,833
Bright	8,560	440	800	-	8,120	612	1,852	6,708
TOTAL	**30,680**	**1,320**	**2,400**	**500**	**29,360**	**2,336**	**6,556**	**24,124**

QUESTION 9

This was a practice question on budgeting.

Candidates were required to prepare;

(a) Materials usage budget;
(b) Materials purchase budget.

Candidates were able to prepare the materials usage budget correctly. They scored high marks for the ‘a’ part of the question.

In part ‘b’, majority of candidates were not able to prepare the materials purchase budget for the company correctly because most of them added the opening stock to the usage from the materials usage budget and deducted the closing stock to get the quantity to purchase instead of adding the closing stock to the usage and deducting the opening stock to get the figure.

The performance of candidates was average.

Candidates were expected to answer the question as follows:

AKAMANI COMPANY LIMITED

(a) MATERIAL USAGE BUDGET

Production:	**Material X** (kg)		**Material Y**(kg)		**Material Z** (kg)
Baga (16,000 x36 kg)	576,000	(16,000 x 24 kg)	384,000	(16,000 x 12 kg)	192,000
Saga (4,000 x 20 kg)	80,000	(4,000 x16 kg)	64,000	(4,000 x16 kg)	64,000
Taka (6,000 x 8 kg)	48,000	(6,000 x 10 kg)	60,000	(6,000 x 8 kg)	48,000
Total materials used	704,000		508,000		304,000

(b) MATERIAL PURCHASE BUDGET

	Material X (kg)	**Material Y** (kg)	**Material Z** (kg)
Material Usage	**704,000**	**508,000**	**304,000**
Add Closing stock	18,000	2,000	1,000
	722,000	510,000	305,000
Less Opening stock	15,000	10,000	5,000
	707,000	500,000	300,000
Unit cost of material	x 2.20	x 1.80	x 1.20
	1,555,400	900,000	360,000