

CRAWFORD UNIVERSITY

IGBESA, OGUN STATE

COLLEGE: COLLEGE OF BUSINESS AND SOCIAL SCIENCES

DEPARTMENT: ACCOUNTING AND FINANCE

TITLE OF EXAMINATION: B.Sc. EXAMINATION

SESSION: 2020/2021

SEMESTER: RAIN

COURSE: COST ACCOUNTING II

COURSE CODE: ACC 204

TIME ALLOWED: 2 ½ HOURS

CREDIT UNIT: 2UNITS

INSTRUCTIONS: ATTEMPT THREE QUESTIONS ONLY

Question 1

Breakeven analysis is the term given to the study of the inter-relationship between costs, volume and profit at the various levels of activity. The breakeven point is the point where a company makes neither profit nor loss.

- a. Mention the assumption of breakeven analysis. (5marks)
- b. ABC Ltd makes a single product with a selling price of N20 and a marginal cost of N12. Fixed cost is N120,000 per annum.

Calculate:

- i. Number of units to breakeven (1 ½ marks)
- ii. Sales at breakeven point. (1 ½ marks)
- iii. $\frac{\text{Contribution}}{\text{Sales}}$ (C/S) ratio (1 ½ marks)
- iv. The number of units to be sold in order to achieve of profit before tax of N40,000. 1 ½ marks
- v. The level of sales to achieve a profit before tax of N40,000. (2marks)
- vi. Because of increasing costs the marginal cost is expected to rise to N13.00 per unit and fixed cost to N140,000 per annum. If the selling price remained unchanged, what will be the number of units required to maintain a certain profit before tax of N40,000 p.a.? (4marks)
- vii. If the taxation rate is 40% how many units will need to be to sold make a target profit after tax of N40,000 p.a.? (3marks)
- (Total 20 marks)

Question 2

Marginal costing is defined as the Accounting system in which variable costs are charged to cost units and fixed costs for the period are written off in full against the aggregate contribution.

- a. Highlight the advantages of marginal costing (3marks)
- b. Mention the arguments for the use of marginal costing. (3marks)
- c. What do you understand by the term "key factor"? (4marks)

- d. Rebecca Ltd makes a single product with selling price for N40 and for which there is a great demand. It has a variable cost of N24 made up as follows:

Direct Material	= N8.00
Direct Labour (2hours)	= N12.00
Variable overhead (2hours)	= N4.00
<u>Total</u>	<u>= N24.00</u>

The labour forces currently working at full capacity and no extra time can be made available. A customer has approached the company with a request for the manufacture of a special order for which is willing to pay N11,000. The cost of the order would be N4,000 for direct material and 500 labour hours will be required.

Required:

Should the special order be accepted?

(10marks)

(Total 20 marks)

Question 3

Standard costing is a technique which establishes predetermined estimates of the costs of products and services and then compares these predetermined costs with actual costs as they incurred.

- Mention the objectives of standard costing (2 marks)
- Discuss the advantages and disadvantages of standard costing (6marks)
- The following data are available from the Spraying Department of Owuye Ltd, a Furniture Manufacturing Company which has established standard cost of producing a cabinet styled: CONCORD.

	N
Direct labour	3.00
Direct material (15 meters at N16.00)	240.00
Indirect Costs:	
Variable Charges (3hrs @ N2.00)	6.00
Fixed charges (3hours @N1.00)	3.00
Standard cost per unit	252.00

The actual costs of producing 400 units of these cabinets during the month of December, 2020 are stated below:

	N
Direct material (7,500meters @N18.00per meter)	135,000
Direct material consumed 7,200 meters	
Direct labour (1,100 hrs @N3.40/hour)	3,740
Variable charges	1,900
Fixed charges	1,200

Fixed charges rate had been set by using 1,400 direct labour hours of operation as the monthly activities level. There were no opening and closing of inventory.

Required:

Calculate the following variances:

- | | |
|--------------------------------------|-----------------|
| i. Direct material price variance. | (1½ marks) |
| ii. Direct material usage variance. | (1½ marks) |
| iii. Direct material cost variance | (1marks) |
| iv. Direct labour rate variance | (1½ marks) |
| v. Direct labour efficiency variance | (1½ marks) |
| vi. Direct labour cost variance | (1marks) |
| vii. Variable expenditure variance | (1½ marks) |
| viii. Variable efficiency variance | (1½ marks) |
| ix. Variable cost variance. | (1marks) |
| | (Total 20marks) |

Question 4

- a. Discuss the concept of opportunity cost for the decision making (6marks)

Favour Ltd is considering whether to manufacture or purchase components type ABC which can be obtained from an outside source for N700 per 1,000. The marginal and total costs of the components are N480 per 1,000 and N800 per 1,000 respectively. The manufacture of these components would involve work on a machine which is currently operating at capacity and data revealed that for each 1,000 of component ABC manufactured the sales of a finished article XYZ will be restricted by 500. The marginal cost and selling price of XYZ are N1,000 and N1,600 per 1,000 respectively. Is it more profitable to purchase or manufacture the ABC components?

(14marks)

(Total 20marks)

Question 5

Write short notes on the following::

- | | |
|------------------------|-----------------|
| i. Basic standard | (2 marks) |
| ii. Current standard | (2 marks) |
| iii. Ideal standard | (2 marks) |
| iv. Normal standard | (2marks) |
| v. Margin of safety | (2marks) |
| vi. Sunk cost | (2marks) |
| vii. Historical cost | (2marks) |
| viii. Limiting factor | (2marks) |
| ix. Absorption costing | (2marks) |
| x. Marginal costing | (2marks) |
| | (Total 20marks) |