

## COST AND COMPUTERIZED ACCOUNTING

SECTION I: ATTEMPT ALL THE 14 QUESTIONS. 55 marks

1. a)

COST	EXPENSE
<ul style="list-style-type: none"> <li>- A cost is the resource sacrificed for the future production benefit. <span style="color: red;">1mk</span></li> <li>- Cost is what is spent to produce goods or to provide service</li> <li>- Money incurred which brings future profit.</li> <li>- is a productive spending</li> <li>- is a profitable spending</li> <li>- A cost is <del>the</del> expenditure</li> </ul>	<ul style="list-style-type: none"> <li>- An expense is a cost which is expired. <span style="color: red;">1mk</span></li> <li>- An expense is the cost incurred without expecting a future benefit.</li> <li>- An expense is a cost which is incurred and disappear</li> <li>- Money spent without any future profit.</li> <li>- is a non productive spending</li> <li>- is a non profitable spending</li> <li>- An expense is <del>the</del> charge</li> </ul>
<p>The cost is <del>a</del> set of expenses <span style="color: red;">(1mk)</span></p>	
<p>Example: <span style="color: red;">Half mark.</span></p>	

b)

- Cost control
- Decision making
- Planning (1mk)
- Cost ascertainment (1mk)
- Setting selling prices
- Controlling
- Disclosure of waste
- Evaluation of alternatives
- Measure of efficiency

02.

## COST ACCOUNTING

- Provides information to internal users **2MK**
- Cost accounting is concerned with ascertainment of costs
- Reports are prepared frequently when required
- Information relates to both past and future events
- Transactions are valued in both monetary and non-monetary
- produces the special purpose statement and report
- must conform to information needs of management
- practices in manufacturing concerns **mainly**
- It is not a legal requirement
- It is expensive
- It is an art

## FINANCIAL ACCOUNTING

- provides information to both internal and external users. **2MK**
- financial accounting is concerned with analysis, interpretation and recording of transactions in the books of accounts.
- Reports are prepared annually or half yearly
- Information relates to only past events.
- Transactions are valued in monetary terms only.
- produces general purpose financial statement
- must conform to GAAP.
- practices in manufacturing and commercial concerns.
- It is a legal requirement
- It is not expensive.
- It is a science.

03

## a) Limitations of Cost Accounting

- It is not an exact science **(1MK)**
- Does not include all items of expenses and incomes
- It is dependent on management needs
- It is expensive and unnecessary for small businesses
- It is based on estimates **(1MK)**
- It requires more training and skills/qualified workers
- Failure in many cases

b) Cost ascertainment is the determination and calculation of costs while Cost Control refers to the action taken over costs in order to avoid increase of cost beyond a given level. (1mk)

or

The cost control make periodic comparison of actual costs with standard costs to measure performance. (1mk)

04

A Cost unit refers to a unit of quantity of produce, service or time to which costs may be ascertained

For example:

- a meter of cloth
- a litre of milk
- a patient bed
- a consulting hour.
- labour hour.
- wage rate
- patient bed
- Kg of sugar
- sewing meal

05

Production cost = Prime cost + production overhead  
 = Factory cost + Adm<sup>e</sup> o.h.  
 = Cost of finished goods manufactured  
 = Cost of goods sold - op. st. of F&G + cl. st. of finished goods.

Prime Cost = Aggregate of all direct costs

06

Historical Costing or actual cost is that cost which is actually incurred on the production of a commodity while

Standard Costing is a technique of cost accounting which compares the standard cost of each product or service with actual cost to determine the efficiency of operation.

**07** Major difficult

- to know the Contribution (2 MKS)
- the Computation of BEP is difficult.

(4/4)

Solution

- separate V.C and F.C (by marginal costing) (2 MKS)

Alternative

\* The difficulty of using the total absorption costing approach is that under absorption costing, both fixed & variable costs are charged to the products, while under marginal costing only variable costs are charged to product to determine the contribution.

\* In absorption costing the closing stock is valued at total cost of production where as in the marginal costing statements, it is valued at marginal costing only.

\* ABS. C.  $\Rightarrow$  Profit = Sales - Total cost  
 Marg. C  $\Rightarrow$  Contr. = Sales - VC or Profit = Contr. - F.C.

**08**

a) - Contribution is the difference between sales and Marginal costs of production.

Contribution = Sales - MC.

$C = S - VC$

$C = S - MC$

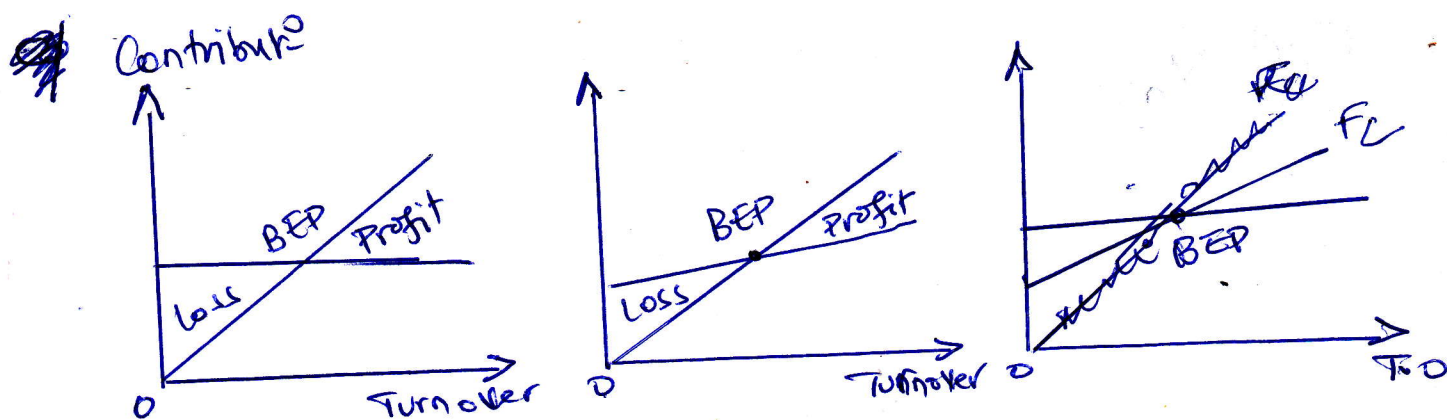
$C = FC + Profit$

$C = FC - loss.$

b) - Break even point is the level of activity / output at which total revenue is equal to total costs.

- Break even point is the level of output at which profit are normal or profits = 0

$BEP = \frac{TFC}{\dots}$



c) Margin of safety: is the amount of sales that can fall before to get a loss.

Margin of safety  $\begin{cases} \rightarrow \text{(in unit)} = \text{units sold} - \text{BEP in units} \\ \rightarrow \text{(in sale value)} = \text{Sales value} - \text{BEP (S.V)} \end{cases}$

09

$\rightarrow$  Profit volume ratio is the ratio of <sup>Contribution</sup> profit expressed as a percentage.

$$PVR = \frac{\text{Profit}}{\text{Sales}} \times 100 \quad \frac{\text{Contr.}}{\text{Sales}} \times 100$$

$\rightarrow$  Profit volume ratio is when the Contribution from sales is expressed as a sales value %.

(4/4)

$\rightarrow$  Profit volume ratio is when the Contribution from sales is expressed as a sales value %.

The Management can increase profit volume ratio by:

- Reducing the cost of production 1mk
- Increase sales in quantity and value 1mk
- Decrease

- P/V ratio is the relationship of Contribution to sales

Sales	V.C.	PVR
$\nearrow$	Constant	$\nearrow$
Constant	$\searrow$	$\nearrow$
$\nearrow$	$\searrow$	$\nearrow$

\* Ways to increase the P/V ratio:

- By increasing the selling price per unit *1mk*
- 2/2* - By decreasing the variable cost per unit *1mk*
- By increasing the sales of products which the high P/V ratio.

**10** Perpetual inventory: it is a permanent control of ~~control~~ stocks.

→ Perpetual inventory means that the use of record *1mk* card for each item of stocks that shows the balance in hand after each transaction.

*3/3*

\* Two ways in which it can be useful to an enterprise are:

*1mk* Recording the receipts and issues at a current price  
→ setting the running balance at the end of each transaction

*1mk* It helps to investigate discrepancies in time and take appropriate measures against corrupt and careless staff.

→ It helps in detection of fraud.

→ It helps to prepare the interim financial statements

**11** a)  $LRV = AH (SR - AR) = (AH \times SR) - (AH \times AR)$

$= (72000 \times 9700) - 720800$  *OR*

$= 698,400,000 - 720800$  *LRV = (SR - AR) AH*

$= 22,400,000 \text{ Rwf (A)}$  *LRV = (72 -  $\frac{720800}{9700}$ ) 9700*

*4/4*

b)  $LEI = 1mk (SH - AH) 1mk$

$= 72 (10,000 - 9700)$

$= 72 \times 300$

$= 21,600 \text{ Rwf (F)}$

$LRV = 22,400,000 \text{ Rwf}$

Fixed budget (20,000 units)

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Sales :	4,000,000
Less: Variable Cost	(2,800,000)
Contribution	<u>1,200,000</u>
Less: Fixed Cost	(500,000)
Gross profit	<u><u>700,000</u></u>

Fixed budget for 14,000 units

Sales (200 x 14,000)	2,800,000
Less: VC (140 x 14,000)	(1,960,000)
Contribution	<u>840,000</u>
Less: Fixed Cost	(500,000)
Profit	<u><u>340,000</u></u>

2/1/20

13.

a) Allowance for idle time

1MK

- It refers to the amount paid to the worker(s) for the time associated with waiting or when the piece of machinery is not being used.
- Wage paid to a worker when work is stopped due to some reasons like machine breakdown, shortage of raw material, power failure ---
- It is the cost paid to the hours between time paid and time worked.

b) Favourable labour variance

(1MK)

It is when actual labour cost is less than standard labour cost.

c) A flexible budget

(1MK)

It is a budget which is designed for adjust the cost according to actual level of activity attained.

4/4

d) Over-recovery of O.H. (over absorption O.H.)

It occurs when absorbed O.H. or predetermined O.H. are greater than actual O.H. incurred. (1mk)

14. Sales Variance =  $AQ (SP - AP)$

$\Rightarrow (AQ \times SP) - (AQ \times AP)$  1mk

$\Rightarrow (2100 \times 500 \text{ Rwf}) - 1,000,800 \text{ Rfw}$

$\Rightarrow 1,050,000 \text{ Rfw} - 1,000,800 \text{ Rfw}$  1mk

$\Rightarrow 49,200$  (Adverse) 0.5 1mk.

OR

Sales price variance = (Standard selling price - Actual selling price) units sold. 1mk

$\Rightarrow (500 - \frac{1,000,800}{2100}) 2100 = 49,200$  (A) 0.5 0.5

OR

$\Rightarrow (500 - \frac{1,000,800}{32100}) 32100 =$  only (1mk)

SECTION II. CHOOSE AND ANSWER ANY THREE (3) QUESTIONS (45mks)

15.

- $\rightarrow$  historical and monetary nature 3mk
- $\rightarrow$  Control over costs is not possible 3mk
- $\rightarrow$  does not reveal relative profitability of product 3mk
- $\rightarrow$  does not assist in pricing (F.A) 3mk
- $\rightarrow$  financial accounts are not classified.
- $\rightarrow$  Information provided by F.A. is limited for management. 3mk
- $\rightarrow$  F.A. is concerned with the or<sup>o</sup> as a whole.
- $\rightarrow$  F.A. is static. (three marks each).



16

## a) MARGINAL PROFIT/LOSS A/C STATEMENT

	A	B	C
Sales	60,000	38,000	33,000
<u>Variable Costs</u>			
Direct Material	(13,000)	(7,000)	(8,000)
Direct Labour	(23,000)	(13,000)	(9,000)
Variable OH	(3,500)	(2,500)	(4,000)
Contribution	20,500 <sup>2mks</sup>	15,500 <sup>2mks</sup>	12,000 <sup>2mks</sup>
Fixed Costs	14,000	18,000	9,000
Profit Loss	6,500 <sub>2mks</sub>	(2,500) <sub>2mks</sub>	3,000 <sub>2mks</sub>

b) Profit of Cost Centres A & C will decrease since profit centre B is concerned with auxiliary product. <sup>3mks</sup>

→ The effect of closing profit Centre B is <sup>3mks</sup> increasing the total profit of the company <sub>3/3</sub>

→ profit Centres A, C cannot be affected since the manager do not transfer the cost of B <sup>3mks</sup> to them.

17

15/15

a)

b)

	KANEZA	KEZA	KAZUNGU
Time Allowed	$216 \times \frac{15}{60} = 54 \text{ hrs}$	$200 \times \frac{15}{60} = 50 \text{ hrs}$	$184 \times \frac{15}{60} = 46 \text{ hrs}$
Time Taken	<u>45 hrs</u>	<u>42 hrs</u>	<u>44 hrs</u>
Time Saved	<u>9 hrs</u>	<u>8 hrs</u>	<u>2 hrs</u>
Overtime (hrs worked - hrs work)	$45 - 40 = 5 \text{ hrs}$	$42 - 40 = 2 \text{ hrs}$	$44 - 40 = 4 \text{ hrs}$
Basic wage	$40 \times 4000 = 160,000$	160,000	160,000
Overtime	$5 \times 6000 = 30,000$	$2 \times 6000 = 12,000$	$4 \times 6000 = 24,000$
Bonus	$9 \times 6000 = 54,000$	$8 \times 6000 = 48,000$	$2 \times 6000 = 12,000$
Labour cost	<u>244,000</u>	<u>220,000</u>	<u>196,000</u>

Total labour cost of 3 workers =  $240,000 + 220,000 + 196,000$

= 660,000 Rwf. **1 MK**

c) Profit = Sales - Total Cost.

Sales =  $10,000 \times 600 = 6,000,000$

Add surcharge =  $1000 \times 600 = 600,000$

6,600,000 **1**

Less:

Direct material ( $5000 \times 600$ ) = 3,000,000 **1**

Direct labour = 660,000

Overheads  $4000(45+42+44) =$  524,000 **1**

Profit =  $6,600,000 - 4184,000$

= 2,416,000 **2 MKS**

18.

a) Total number of stoves sold

⇒  $\frac{\text{Total price}}{\text{Unit price}} = \frac{252,000}{1,400} = 180 \text{ stoves}$

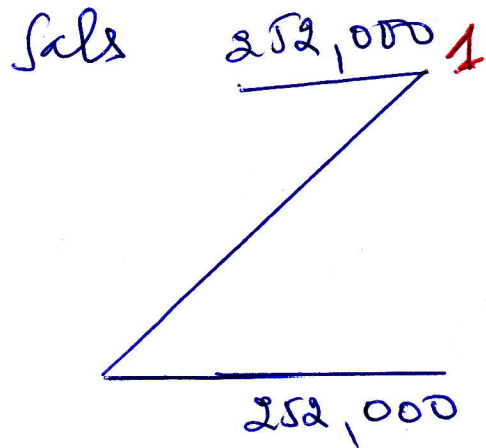
② number of stoves on-hand Jan, 2013 is 70 stoves  
by closing stock (2012) in quantity;

⇒  $250 \text{ stoves} - (40 + 30 + 80 + 30) = 70 \text{ stoves}$

② Value ;  $70 \text{ stoves} \times 750 = 52,500 \text{ Rupees}$

c) Trading a/c using fifo (2012)

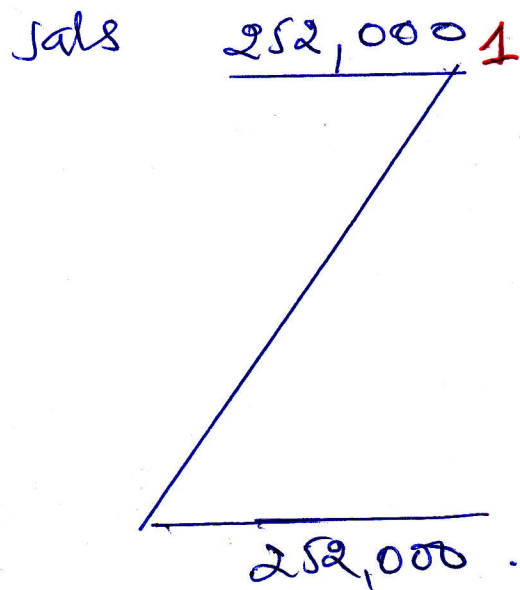
⑤ Stoves available for sale	: 170,000
- Cls. St.	: (52,500)
Cost of sales	117,500
Gross profit	134,500
	<u>252,000</u>



Alternatives

Trading a/c 2012 (Using fifo)

Op. St.	38,000
Add: Purchases	
27,000	} 170,000
68,000	
75,000	
less: Cl. St.	(52,500)
Cost of stove sold	155,500
G.P	96,500
	<u>252,000</u>



d) Value of closing stock by WAP

40 units	—————>	38,000
30 units	—————>	27,000
80 units	—————>	68,000
100 units	—————>	75,000

$\frac{4}{4}$  250 u —————> 208,000.

1 Unit Cost =  $\frac{208,000}{250} = 832$ .

Closing Stock = 70 u x 832 = 58,240 Rwf.

e) The gross profit using the WAP (Dec 2012)

Trading a/c Using WAP (2012)

Alternative

H. av. for sale:	170,000
less. cl.	58,240
<b>Cost of sales</b>	<b>111,760</b>
<b>Gross profit</b>	<b>140,240</b>
	<u>252,000</u>

Sales: 252,000
252,000

Op. St.	38,000
Add. Purch.	170,000
less. cl. St.	(58,240)
<b>Cost of sales</b>	<b>149,760</b>
<b>Gross profit</b>	<b>102,240</b>
	<u>252,000</u>

Sales: 252,000
252,000

**19.**

a)  $BEP = \frac{TFC}{\text{Contribution per unit}}$

$TFC = 19800 + 7500 = 27300$

Contribution per unit = SP unit - VC/unit

$VC \text{ per unit} = \frac{(180000 + 21000)}{3000} = 67$ .

$BEP = \frac{27300}{80 - 67} = \frac{27300}{13} = 2100 \text{ units}$

b) Quantity for expected Profit of 18000 =  $\frac{TFC + \text{Expected profits}}{\text{Contribution per unit}}$

$$\Rightarrow \frac{27300 + 18000}{13} \quad 1$$

$$\Rightarrow \frac{45300}{13} = \underline{\underline{3485}} \text{ Units} \quad 1$$

c)  $BEP = \frac{TFC}{\text{Contribution per unit}} \quad 1$

$$= \frac{27300}{80 - (67 + 4)} \quad 1$$

$$= \frac{27300}{80 - 71}$$

$$= \frac{27300}{9} = \underline{\underline{3033}} \text{ Units} \quad 1$$

d) Qty for expressed profit =  $\frac{FC + \text{expected profit}}{\text{contribution per unit}} \quad 1$

$$\Rightarrow \frac{27300 + 18000}{9} \quad 1$$

$$= \frac{45300}{9}$$

$$= \underline{\underline{5033}} \text{ Units} \quad 1$$

e) Profits =  $TR - TC \quad 1$

$$= (P \times Q) - (FC + VC)$$

$$= (80 \times 4000) - [27300 + (71 \times 4000)]$$

$$= 320,000 - (27300 + 284000)$$

$$= 320,000 - 311300 \quad 1$$

$$= \underline{\underline{8700}} \text{ Rwf} \quad 1$$

Alternative (e)

Sale  $4000 \times 80 =$

320,000

Less marginal costs

$71 \times 4000$

284,000

Contribution

36,000  $\uparrow$

Less: fixed costs

27,300

Profit

8700  $\uparrow$

