QUESTION 1

Atta Kwame Manufacturing Company operates a standard costing system. The following was the budgeted income statement for the year 2011.

Budgeted Income Statement for 12,000 units

	GHC
Direct materials (3 kilos per unit)	144,000
Direct labour cost (1½ hrs per unit)	108,000
Variable Overheads (based on direct labour hrs)	36,000
Fixed Overheads (based on direct labour hrs)	54,000
Total cost	342,000
Budgeted profit	90,000
Budgeted sales	432,000

Actual activities for the year 2011 were as follows:

Stock levels	Opening Stock	Closing Stock
Direct Materials (units)	1,000	800
Finished Goods(units)	2,400	2,800

Actual Production 13,900 units

Actual Costs:

(i)	Direct Materials Purchased	42,000 units at a total cost of GHC189,000
(ii)	Direct Labour Costs	22,000 Hrs at a total cost of GHC110,000
(iii)	Variable Overheads	GHC44,480
(iv)	Fixed Overheads	GHC54,000

Actual Selling Price was GHC34 per unit

Required:

(a) Prepare the Actual Income Statement

(***8 marks***)

(b) Reconcile the Actual Profit with the Budgeted Profit indicating clearly all relevant Sales, Materials, Labour and Overhead variances.

(***12 marks***)

(**Total: 20 marks**)

QUESTION 2

(a) Explain **five (5)** characteristics of Process Costing Systems.

(***5 marks***)

(b) The following data relate to Process 2 of Ano Ltd, a paint manufacturer for the financial year ended 31 December 2010.

At the beginning of the year, there were 800 units partly completed which had the following values:

	Value GHC	Percentage complete
Input material (from process 1)	8,200	100
Material introduced	5,600	55
Labour	3,200	60
Overheads	2,400	45

During the period, 4300 units were manufactured from Process 1 at a value of GHC46,500. Other costs were:

	GHC
Material introduced	24,000
Labour	19,500
Overheads	18,200

At the end of the year, the closing WIP was 600 units which were at the following stages of completion:-

Input material	-	100% complete
Material introduced	-	50% complete
Labour	-	45% complete
Overheads	-	40% complete

The balance of 4500 was transferred to finished goods.

Required:

(i) Calculate the value of units transferred to finished goods and the value of WIP using the FIFO method. (***8 marks***)

(ii) Prepare the Process 2 Account using the FIFO method

(***7 marks***)

(**Total: 20 marks**)

QUESTION 3

A Sports Kit manufacturer, in conjunction with a Software house, is considering the launch of a new sporting simulator based on video-tapes that enables greater realism to be achieved. Two proposals are being considered. Both use the same production facilities and, as these are limited, only one product can be launched.

The following data are the best estimates the firm has been able to obtain:

	Football Simulator	Cricket Simulator
Annual volume (units)	40,000	30,000
Selling price (per unit)	GHC65	GHC100
Variable cost of production	GHC40	GHC50
Fixed production cost	GHC300,000	GHC300,000
Fixed selling and administrative cost	GHC225,000	GHC675,000

The higher selling and administrative costs for the cricket simulator reflect the additional advertising and promotion costs expected to be necessary to sell the more expensive cricket system.

The firm has a minimum target of GHC100,000 profit per year for new products. The management recognizes the uncertainty in the above estimates and wish to explore the sensitivity of the profit on each product to changes in the values of the variables (volume, price, variable cost per unit and fixed costs).

You are required to calculate for each of the products:

(a) The expected profit from each product (***6 marks***)

(b) (i) The units to be produced if the targeted profit is GHC100,000

(ii) The unit selling price per product, if the expected profit per year is GHC100,000 (***8 marks***)

(c) Discuss **two (2) qualitative** and **four (4) quantitative** factors which should be considered in making a choice between the two products (***6 marks***)

(**Total: 20 marks**)

QUESTION 4

(a) State and explain each of the **four (4)** stages involved in designing Activity-based Costing. (***8 marks***)

(b) KK Ltd is an agro processing company situated in the SADA area. The company is preparing its budget for the first three months of 2013 and has approached you for assistance. The following is available:

(i) Information extracted from the Sales budget are as follows:

	GHC
November 2012	160,000
December 2012	180,000
January 2013	150,000
February 2013	200,000
March 2013	200,000

(ii) Debtors settle according to the following pattern:-

70% within the month of sale
20% in the month following
10% in the second month after sales

(iii) Extracts from the Purchases budget were as follows:

	GHC
December 2012	120,000
January 2013	100,000
February 2013	100,000
March 2013	120,000

All purchases are on credit. 90% are settled in the month following purchase and the balance settled in the second month after purchase.

(iv) Wages are expected to be as follows:

	GHC
January 2013	130,000
February 2013	155,000
March 2013	160,000

These are to be paid one month in arrears.

(v) Electricity of GHC2,000 per month is to be paid one month in advance.

(vi) Corporate tax GHC100,000 is expected to be paid in March 2013.

(vii) The company will receive settlement of an insurance claim of GHC5,000 in March 2013.

(viii) Overheads are expected to be GHC125,000 every month. (This includes depreciation of GHC5,000).

(ix) The company has an overdraft facility with BBG Bank Ltd for the purpose of its day to day operations up to GHC500,000.

Required:

(i) Prepare a monthly cash budget for the first quarter of 2013.

(10 arks)

(ii) State briefly **two (2)** demerits of cash budgets.

(***2 marks***)

(**Total: 20 marks**)

QUESTION 5

(a) Discuss **three (3)** methods that can be used to fix transfer pricing in a company.

(***6 marks***)

(b) Global Imex has two divisions; one located at Tema and the other in Kumasi.

The following is an extract from the annual report for the 2010 financial year.

	Tema	Kumasi
	GHC	GHC
Profit before depreciation	450,000	620,000
Depreciation	120,000	130,000
Non-current assets	1,200,000	1,300,000
Current Assets	750,000	1,000,000
Current Liabilities	350,000	400,000

The company's cost of capital is 20%.

Required:

(i) Using **Return on Investment (ROI)** and **Residual Income**, comment on the performance of the divisions.

(ii) The Kumasi branch intends to sell one of the non-current assets with book value of GHC120,000 and make a profit of GHC60,000. Tema also wants to acquire another asset costing GHC90,000 that will generate a profit of GHC40,000. To what extent will the decisions affect the performance of the divisions?

(***14 marks***)

(**Total: 20 marks**)