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FORM TP 2014128

MAY/JUNE 2014

CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ACCOUNTING

UNIT 2 – Paper 032

1 hour 30 minutes

10 JUNE 2014 (p.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises NINE questions. Answer ALL questions.
2. Begin EACH answer on a new page.
3. You may use a silent, non-programmable calculator to answer questions.
4. ALL working must be clearly shown.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

1. Draw TWO sketches to show the nature of the following curves:

(a) Total fixed cost **[2 marks]**

(b) Fixed cost per unit as output increases **[2 marks]**

The axes should be clearly labelled.

Total 4 marks

2. Rowe Industries Ltd operates a manufacturing plant with three production departments: Machining, Assembly and Finishing, and three service departments: Canteen, Store and Engineering Shop, as shown in Table 1.

TABLE 1: DETAILS OF PRODUCTION AND SERVICE DEPARTMENTS

Details	Machining	Assembly	Finishing	Store	Canteen	Engineering Shop
Allocated Overhead	$586 000	$418 000	$322 000	$118 000	$115 000	$158 000
Number of Employees	40	75	60	10	–	15
Number of Orders	100	80	125	–	–	55
Service Hours	1500	1 000	800	–	–	–

The company allocates service departments' costs as follows:

- Store – based on number of orders
- Canteen – based on number of employees
- The canteen employees are subcontractors
- Engineering Shop – based on service hours

Rowe Industries Ltd uses the step down method to allocate service department costs.

Calculate the amount of overhead cost that will be assigned to EACH production department.

Total 9 marks

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3. Tucker Ltd is considering undertaking a job for a customer at the costs below.

Materials	$1 600
Additional expenses	$1 200
Labour time required	100 hours
Labour cost	$25 per hour

To undertake the job, the company would have to **move** labour from other operations that earn a contribution of $75 per hour.

Overhead costs are absorbed at the rate of $95 per direct labour hour.

The customer is willing to pay $11 800 for the job. Should the company accept the job? **(Show all working).**

Total 7 marks

4. Nugent Ltd is a company that manufactures building equipment. It has three production departments. It has produced the following budgeted and actual costs of production for the year ended 30 June 2011.

	Department A	**Department B**	**Department C**
Budgeted production overhead	$150 000	$180 000	260 000
Budgeted direct labour hours	25 000	20 000	52 000
Budgeted machine hours	35 000	45 000	20 000
Budgeted direct labour cost	$100 000	$120 000	$180 000
Actual results were as follows:			
Direct labour hours	52 000	41 000	33 000
Machine hours	38 000	46 000	8 500
Direct labour cost	$108 000	$122 000	$208 000
Actual overhead	$310 000	$190 000	$302 500

(a) Calculate overhead absorption rate for EACH department, using the following base:

(i) Department A direct labour hours

(ii) Department B machine hours

(iii) Department C direct labour cost **[3 marks]**

(b) Calculate the under or over absorbed overheads per department. **[6 marks]**

Total 9 marks

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5. The financial controller of Richard Manufacturing Company Ltd is currently using marginal costing in the preparation of the company's statement of comprehensive income.

The following cost and revenue data have been provided:

	$ per unit
Selling Price	535.00
Direct Material Cost	108.00
Direct Labour Cost	105.00
Variable Production Overhead	102.00
Variable Selling Expense	35.00

Fixed production overhead costs are budgeted at $280 000 per annum based on a budgeted normal output of 56 000 units per annum. The budgeted fixed selling expense is $150 000 per annum.

The sales and production estimates for the year ended 31 December 2010 are:

	Units
Production	60 000
Sales	55 000

Prepare the Statement of Comprehensive Income (Income Statement) for the year ended 31 December 2010 using Absorption Costing format. **(Show all working).**

Total 7 marks

6. State TWO examples of work that may be done using job costing and TWO examples of work that may be done using process costing.

Total 4 marks

7. Murray Industries Ltd produces a single product, ABQ. The budget for product ABQ for the period 01 January 2011 to 30 June 2011 was as follows:

Production	7000 units
Sales	6000 units @ $150 per unit
Direct Material cost	21 000 kg @ $20 per kg
Direct Labour cost	14 000 hrs @ 50 per hour

The actual result of Murray Industries Ltd for the period 01 January 2011 to 30 June 2011 was as follows:

Production	8 750 units
Sales	7 800 units @ $150 per unit
Direct Material cost	17 500 kg purchased and consumed at a total cost of $411 250
Direct Labour cost	20 000 hours at total cost of $960 000

Calculate for Murray Industries Ltd:

(a) Material Usage Variance **[2 marks]**

(b) Material Price Variance **[2 marks]**

(c) Labour Efficiency Variance **[2 marks]**

(d) Labour Rate Variance **[2 marks]**

Total 8 marks

8. (a) Identify THREE techniques used for investment appraisal. **[3 marks]**

(b) Give TWO advantages and THREE disadvantages of any ONE of the techniques named in (a) above. **[5 marks]**

Total 8 marks

9. (a) State TWO advantages of cash budgets. **[2 marks]**

(b) State TWO limitations of cash budgets. **[2 marks]**

Total 4 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.