

**PAPUA NEW GUINEA UNIVERSITY OF TECHNOLOGY  
DEPARTMENT OF BUSINESS STUDIES**

**2022 First Semester Final Examination**

**AC212 – Cost Accounting 1 (BCAC 2)**

**TIME: 8:30 6<sup>th</sup> Monday June, 2022, TIME ALLOWED: 3 HOURS**

**INSTRUCTIONS TO STUDENTS**

1. You have 10 minutes to read the examination paper. You must not begin writing during this time.
2. You **MUST** answer all Questions even if you are not sure of an answer.
3. Make sure that you read each question carefully before you answer them. The mark awarded for the questions are shown beside each question.
4. All answers must be written on the answer booklets provided. No other written material may be accepted. Please hand in every answer booklet provided to you after the examination.
5. Note Books, Textbooks, Notes, Mobile Phones are not permitted in the examination hall.
6. PRINT your name and student number on the answer booklet provided.  
PLEASE DO IT NOW.

**This Final Examination is worth 100 Marks towards your Final Grade.**

**Name of Examiner: Ms. Mali**

**Part 1: Multiple Choice Questions: Choose the correct answer by writing A, B, C or D for each question.**

**Question 1:** Variable cost may increase or decreases in direct proportion to levels of activity, but the unit variable cost \_\_\_\_\_.

- a.) increases
- b.) decreases
- c.) Remains constant
- d.) Decrease in direct proportion

**Question 2:** Unexpired costs are the resources that have been acquired and are expected to contribute to the future \_\_\_\_\_.

- a.) Assets
- b.) Revenue
- c.) Expenses
- d.) Liability

**Question 3:** Costs such as rent, rates, depreciation, maintenance expenses that do not have instant relationships with the manufacturing processes are known as;

- a.) Direct expenses
- b.) Direct labour costs
- c.) Indirect expenses
- d.) Indirect labour costs

**Question 4:** In which of the following account will cost of products be recorded if products are sold?

- a.) Revenue account
- b.) Asset account
- c.) Expense Account
- d.) Liability account

**Question 5:** If products are unsold, in which of the following account will cost of products be recorded.

- a.) Revenue account
- b.) Asset account
- c.) Expense Account
- d.) Liability account

**Question 6:** What is the correct formula for calculating the percentage of direct labour cost?

- a.)  $\text{Manufacturing overhead expenses} / \text{direct wages cost} \times 100$
- b.)  $\text{Direct wages costs} / \text{Manufacturing overhead expenses} \times 100$
- c.)  $\text{Direct labour costs} / \text{prime costs} \times 100$
- d.)  $\text{Manufacturing overheads expenses} \times \text{direct labour costs} / 100$

**Question 7:** Which of the following is not an example of indirect costs?

- a.) Rent, rates and insurance of factory and office
- b.) Power, fuel, lighting, heating of factory and office.
- c.) Advertising, legal charges, audit fees, bad debts, etc.
- d.) Salaries and fringe benefits paid to maintenance workers, factory supervisors and factory managers.

**Question 8:** Which of the following is not a step to control overtime?

- a.) Entire overtime should be duly authorised before investigating the reasons for it.
- b.) If overtime become a regular feature, then recruit more employees.
- c.) If overtime is due to lack of plant and machinery, plans to install more machines or resort to sub-contracting.
- d.) Overtime cost should be shown against the concerned department.

**Question 9:** When a product is completed and ready for sale, all direct materials, direct labors, factory overhead costs incurred to manufacture the product are transferred from Work in Process Inventory account to;

- a.) Manufacturing overhead Account
- b.) Cost of Goods Sold Account
- c.) Work in Process Account
- d.) Finished Goods Account

**Question 10:** Overhead can be classified according to functional analysis as;

- a.) Fixed overhead
- b.) Research and development overhead
- c.) Variable overhead
- d.) Semi-variable overhead

**Question 11:** Which of the following is not an example of indirect labour costs?

- a.) Salaries and commission paid for staff engaged in research and development.
- b.) Salaries and commission of salesmen, travelers, agents, demonstrators and technical advisors to customers, sales managers.
- c.) Salaries and wages paid to quality control engineers, assembly line workers, production managers and delivery truck drivers.
- d.) Salaries and wages paid to supervisors, foremen & chargehands, inspectors, storekeepers, maintenance labours, operators, employees drawing office, watch and ward staff, welfare staff and works clerical staff.

**Question 12:** Overtime arises due to the following reasons except;

- a.) For completing a job or order within a specified period as requested by the manager.
- b.) For making up time lost due to unavoidable reasons.
- c.) For working due to seasonal rush.
- d.) For working due to policy decisions, i.e. when there is general pressure of work and labour shortage etc.

**Question 13:** The following are productive causes of idle time except;

- a.) Machine breakdown
- b.) Poor planning
- c.) Waiting for instructions
- d.) Power cuts

**Question 14:** Idle time can be eliminated or minimized by taking the following steps except;

- a.) Production should be properly planned in advance
- b.) Purchases/requisitioning of material in time
- c.) Replacing old machines with new machines
- d.) Utilising man power effectively

**Question 15:** Which type of business sector does not have inventorial costs?

- a.) Manufacturing Business
- b.) Retailing/wholesaling Business
- c.) Services Business
- d.) Merchandising Business

**Question 16:** Costs that cannot be identified specifically with or traced to a given cost object are referred as;

- a.) Indirect labour
- b.) Indirect materials
- c.) Indirect expenses
- d.) All of the above

**Question 17:** Which of following is not the main objectives of Cost Accounting?

- a.) To ascertain the Costs under different situations using different techniques and systems of costing.
- b.) To determine the selling prices under different circumstances.
- c.) It reports operating results and financial position usually at the end of the year.
- d.) To determine and control efficiency by setting standards for Materials, Labor and Overheads

**Question 18:** Total fixed cost remains constant over relevant range of activity level but unit fixed cost \_\_\_\_\_ with an increase in activity volume.

- a.) Rises
- b.) Falls
- c.) Constant
- d.) None of the above

**Question 19:** Which is not the type of direct expenses?

- a.) Travelling, hotel and other incidental expenses incurred on a particular contract.
- b.) Freight, if the goods are handled by an outside carrier whose charges can be related to individual units.
- c.) Cost of purchasing raw materials
- d.) Cost of making a design, pattern for a specific job.

**Question 20:** Which of the following is not a method of calculating overhead rate?

- a.) Direct labour hour
- b.) Machine hour
- c.) Percentage of prime cost
- d.) Combination of direct labour cost and direct material cost rate

## Part 2: Short Answer Questions. [20 Marks]

A company manufactures and retails clothing. When determining the cost of units produced, you are required to write the correct classification for each of the costs below, using the following classifications (each cost is intended to belong to only one classification):

- (i) **direct materials** (ii) **direct labour** (iii) **direct expenses** (iv) **indirect production overhead** (v) **research and development costs** (vi) **selling and distribution costs** (vii) **administration costs** (viii) **finance costs**

1. lubricant for sewing machines.
2. floppy disks for general office computer.
3. maintenance contract for general office photocopying machine.
4. telephone rental plus metered calls.
5. interest on bank overdraft.
6. Performing Rights Society charge for music broadcast throughout the factory overhead.
7. market research undertaken prior to a new product launch.
8. wages of security guards for factory.
9. cost of denim fabric purchased.
10. royalty payable on number of units of product XY.
11. road fund licenses for delivery vehicles.
12. postage cost of parcels sent to customers.
13. cost of advertising products on television.
14. audit fees.
15. chief accountant's salary.
16. wages of operatives in the cutting department.
17. cost of painting advertising slogans on delivery vans.
18. wages of storekeepers in materials store.
19. wages of fork lift truck drivers who handle raw materials.
20. cost of developing a new product in the laboratory.

## Part 3: True or False. You are required to write True if the statement is true and write False if the statement is not true. [10 Marks]

**Question 1:** Departmentalization of overhead means to divide the factory overhead into several segments called costs center to which expenses are charged.

**Question 2:** Finance expenses like interest paid and received, dividend received on investments, rent received, profit or loss on sale of investments or company's property, transfer fees received are part of the indirect expenses.

**Question 3:** One requirement for financial accounting is to follow the GAAP guidelines.

**Question 4:** Wages and salaries paid to foremen, supervisors, clerks, storekeepers, managers, accountants, salesmen, directors etc., are all direct labour costs.

**Question 5:** When raw materials are used in the production, the cost should be debited to the work in process account.

**Question 6:** Cost object is an activity or item or operation for which a separate measurement of costs is desired.

**Question 7:** Merchandising-sector businesses purchase tangible products and then sell them after altering their basic form.

**Question 8:** Information prepared by financial accounting should be used by the management.

**Question 9:** A statistical method that measures the average amount of change in the dependent variable associated with a unit change in one or more independent variables is called Linear Regression.

**Question 10:** Semi-variable cost increases or decreases with activity level and in direct proportion.

#### **Part 4: Problem Solving -Part A [25Marks]**

##### **Question 1**

Suppose management believes that the monthly overhead cost in the factory is K5, 000 mixed costs. It is believed to be 60% fixed and 40% variable. The variable portion is believed to depend on machine hours. There were 10, 000 machine hours per month. How would you show this as a linear equation? [5marks]

##### **Question 2**

If 20 employees leave an organisation in a year and the average labour force is 400, then the labour turnover rate would be; [3 marks]

##### **Question 3**

Month	output(units)	Indirect expenses (K)
January	1,500	6,000
February	1,800	6,600
March	2,100	7, 200
April	2,820	8,640
May	2,220	7,440

Required: Using high low method, calculate variable cost per unit. [7 marks]

**Question 4:** In May 2013, the outputs of the factory is 2000 units and expenses are as follows;

Fixed costs	K10, 000
Variable costs	K8, 000
Semi-variable costs (60% fixed)	K9, 000

In the next month, if the output is likely to increase by 500 units. You are required to calculate the budget or estimate expenses for the increase units. [10 marks]

## Part 5: Problem Solving – Part B [25 marks]

### Question 1

The following is the information of Lae Biscuit Company. You are required to prepare a store ledger and calculate the cost of materials issued using FIFO method.

The material stock at end on 1 February 2012 was 400 units at K50 per unit. [15 marks]

#### Date

2 February	Purchased 100 units @ K55 each
6 March	Issued 400 units
10 March	Purchased 600 units @ K60 each
13 March	Issued 500 units
20 March	Purchased 500 units @ K65 each
25 March	Issued 600 units
10 April	Purchased 800 units @ K70 each
12 April	Issued 500 units
13 April	Issued 200 units
15 April	Purchased 500 units @ K75 each
12 May	Issued 400 units
15 May	Purchased 300 units @ K80 each

### Question 2

Below is the information for a manufacturing company. You are required to prepare a cost of goods manufactured schedule for the year ended, 31<sup>st</sup> December, 2019. [10 marks]

Work in process, January 1	K18, 400
Raw Materials inventory, January 1	K16, 700
Raw Materials Purchases	K152, 500
Raw Materials inventory, December 31	K22, 800
Direct Labour	K175, 600
Indirect Labour	K14, 300
Factory repairs	K12, 600
Factory utilities	K10, 100
Factory depreciation	K9, 440
Factory insurance	K8, 360
Work in process, December 31	K25, 200