

INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS
OF PAKISTAN

PROFESSIONAL-1 EXAMINATION—SUMMER, 2003

Thursday, the 22nd May, 2003

689

COST ACCOUNTING

Time Allowed—2 Hours 40 Minutes

Maximum Marks—90

- (i) Attempt ALL questions.
- (ii) Answer must be neat, relevant and brief.
- (iii) In marking paper, the examiners take into account clarity of exposition, logic of arguments, effective arrangement, presentation, language and use of clear diagram/chart, where appropriate.
- (iv) Read the instructions printed on the top cover of answer script CAREFULLY before attempting the paper.
- (v) Use of non-programmable scientific calculators of : O Casio fx-82LB, O Casio fx-82 Super, O Casio fx-350 D, O Casio fx-350 HA, models is allowed.
- (vi) DO NOT write your Name, Reg. No. or Roll No. anywhere inside the answer script.
- (vii) Question No. 1—“Multiple Choice Question” printed separately, is an integral part of this paper.

Marks

- Q. 2 (a) What do you understand by the term “Economic Order Quantity” in the context of material control. Which factors influence the determination of the most economical purchase order ? 7
- (b) Aslam Motor Company manufactured 500 motors during January, 2002. The cost elements per motor were :

	<u>Rs.</u>
Direct material	1000
Direct labour	1750
Factory overheads	1250
Total	<u>4000</u>

P.T.O.

On final inspection, it was discovered that 20 motors were spoiled and would have to be sold as "seconds" at a price of Rs. 1000 each, whereas 10 motors were defective which would require Rs. 500 of additional material, Rs. 500 and Rs. 250 of additional labour and overheads respectively.

Required :

- (i) Prepare journal entries to record work put into process and completed during the month of January, 2002, accounting for the spoiled work and to record the additional cost incurred in reworking the defective units when the loss due to spoilage and defective work is charged to all the production. 10
- (ii) How does the decision to spread the spoilage loss and additional cost to rework defective work to the entire production affect the predetermination of Factory Overhead Rate. 5
- Q. 3 (a) Discuss the advantages and disadvantages of the market value and average unit cost method of joint cost allocation to joint products. 7
- (b) The NC Company manufactures three products A, B and C. During January, 2003, the following joint costs were incurred :

	<u>Rs.</u>
Direct material	200,000
Direct labour	180,000
Factory overheads	100,000

Quantities jointly produced were :

A	100,000 units
B	50,000 "
C	30,000 "

Additional costs after split off were :

<u>Product</u>	<u>Direct labour</u>	<u>Factory overheads</u>
	<u>Rs.</u>	<u>Rs.</u>
A	150,000	200,000
B	80,000	70,000
C	35,000	25,000

Unit sale prices were "A" Rs. 10, "B" Rs. 8 and "C" Rs. 12

Required :

- (ii) Calculate the amount of gross profits for each product assuming that all units produced were sold and that joint cost is allocated using the market value method. 8
- (iii) Recommend, whether the product A should be sold at the split off point at Rs. 6 per unit or processed further. (Show your workings). 7
- Q. 4 (a) What do you understand by the term "Responsibility Accounting" ? Enumerate some of the benefits that should result from "Responsibility Accounting". 8
- (b) The following data originates from three different situations occurring in a manufacturing organisation using process costing :
- (i) Started in process during the month 18000 units
Completed during the month and transferred 12000 units

In process at the end of the month 6000 units
(complete as to materials and 1/2 complete as to conversion cost).
- (ii) In process inventory at the beginning of the month 12000 units
(1/4 complete as to materials and 1/8 complete as to conversion cost).

Completed and transferred during the month 15000 units
Lost during the month. 1000 units

Still in process at the end of the month 6000 units
(1/8 complete as to materials and 1/4 complete as to conversion cost).
- (iii) Inventory at the beginning of the month 4500 units
(Complete as to material, 1/4 complete as to conversion cost).

Put into process during the month 12500 units
In process at the end of the month 2100 units
(complete as to materials, 1/3 complete as to conversion cost).
In process at the end of month 1700 units
(1/2 complete as to materials, 1/4 complete as to conversion cost)

P.T.O.

Required:

Compute the equivalent production in each situation, using :

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- (i) FIFO method of costing.
- (ii) Average costing.

Q. 5 (a) What are the primary objectives of using a predetermined Factory overhead rate ? Are predetermined factory overhead rates required in a process cost system ? Explain.

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(b) NLC Company estimated the following factory overhead for the year 2002 :

	<u>Rs.</u>
Indirect labour	350,000
Land rental	10,000
Property taxes—building	25,000
Depreciation—building	120,000
Depreciation—machinery	180,000
Insurance—building	25,000
Insurance—machinery	36,000
Power and light	72,000

Following additional data is available :

<u>Items</u>	<u>Departments</u>			
	<u>Grinding</u>	<u>Mixing</u>	<u>Stores</u>	<u>Personnel</u>
No. of employees	16	10	4	5
Area sq. ft.	2,000	1,500	1,000	500
Requisitions issued	5,000	3,000	50	50
Power units consumed	10,000	5,000	2,000	1,000
Direct labour hours	53,750	43,600	—	—
<u>Direct allocation of overheads :</u>				
Indirect labour (Rs.)	150,000	120,000	55,000	25,000
Depreciation-machinery (Rs.)	140,000	20,000	18,000	2,000

Required :

- (i) Prepare departmental overheads distribution sheet.
- (ii) Calculate departmental overheads application rate based on direct labour hours.

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THE END