

INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN



Fall (Winter) 2008 Examinations

Monday, the 17th November 2008

FUNDAMENTALS OF COST AND MANAGEMENT ACCOUNTING - (S-201)

Stage – 2

Time Allowed – 2 Hours 45 Minutes

Maximum Marks – 90

- (i) Attempt all questions.
- (ii) Answers must be neat, relevant and brief.
- (iii) In marking the question paper, the examiners take into account clarity of exposition, logic of arguments, effective 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 any model 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 question paper.

			Marks
Q. 2	(a)	State the major benefits which a costing system can provide to the management.	07
	(b)	Why has the budget been cited as the most essential tool in cost planning?	07
Q. 3	(a)	List out the departments required for proper accounting and control of wages and salaries in a big organization. Briefly explain the functions of each department.	06
	(b)	ABS Limited has been buying a part 'Z' used in the product XYZ in lots of 4,000 units which is a monthly requirement. The cost per unit of 'Z' is Rs.120, ordering cost is Rs.1,000 per order and carrying cost is 20% per annum.	
Required:			
		How much can the company save annually by buying in the most economic lot quantities? Support your answer with appropriate calculations.	10
Q. 4	(a)	What are the steps followed in establishing departmental factory overhead rates?	05
	(b)	Company 'F' has to quote a price of a job. Management desires to know the total cost of the job using different bases of applied overhead rates.	

PTO

Following data of previous month are available to calculate such rates:

	<u>Hours</u>	<u>Rupees</u>
Direct materials used		2,400,000
Direct labour		1,800,000
Overhead charges allocated		3,000,000
Direct labour hours worked	375,000	
Hours of machine operation	600,000	

Estimated data of the Job:

Direct materials		240,000
Direct labour		180,000
Direct labour hours	45,000	
Machine hours	75,000	

Required:

Work out the total cost of the job with the help of the data provided by using three different methods of application of overhead viz:

- | | |
|--------------------------|----|
| (i) Direct labour cost | 04 |
| (ii) Machine hours | 03 |
| (iii) Direct labour hour | 03 |

Q. 5 (a) Briefly describe the job order cost accumulation procedure. 08

(b) The following data has been taken from the record of Omar Bros., relating to three different periods:

Period 1	<ul style="list-style-type: none"> - Units in process at the beginning of the period 5,000 ($\frac{1}{2}$ completed as to materials and $\frac{3}{4}$ completed as to labour and overhead). - Fresh units started in process 40,000. - Units completed and transferred 35,000. - Units still in process 10,000 (4,000 units fully completed as to materials and $\frac{1}{2}$ completed as to labour and overhead while remaining units were $\frac{1}{2}$ completed as to materials and $\frac{2}{3}$ completed as to labour and overhead).
Period 2	<ul style="list-style-type: none"> - Units in process at the beginning 4,500 (fully completed as to materials and $\frac{1}{3}$ completed as to labour and overhead). - Units put into process 30,000. - Units completed and transferred 28,000. - Units still in process 5,000 ($\frac{1}{2}$ completed as to all cost elements). - Remaining units were lost in process (the loss was normal).
Period 3	<ul style="list-style-type: none"> - Units in process at the beginning 8,000 (4,000 units were $\frac{1}{2}$ completed as to materials and $\frac{3}{5}$ completed as to labour and overhead while the remaining units were $\frac{1}{4}$ completed as to material and $\frac{1}{5}$ completed as to labour and overhead). - Units received from preceding department 40,000. - Units completed and transferred 30,000. - Units still in process 16,000 (50% units were $\frac{1}{2}$ completed as to all cost elements; 25% units completed $\frac{1}{4}$ as to all cost elements while the remaining units were $\frac{1}{8}$ completed as to material, but no labour and overhead). - Remaining units were lost in process as per normal condition.

Required:**Marks**

Calculate the equivalent production units of above three periods using:

- | | |
|-----------------------------|----|
| (i) FIFO costing method | 08 |
| (ii) Average costing method | 07 |

- Q. 6 (a)** The information are collected from the records of Delta Company Limited for the month of September 2008 for material 'X' consumed and labour used for production of item 'A'. Two (2) units of material 'X' used and the predetermined purchase price for material 'X' is Rs.6 per unit. Labour required to produce one (1) unit is 3 hours and the labour rate per hour is Rs.10.

The actual production for item 'A' was 15,000 units and the materials consumed with price, labour worked and wages paid were as follows:

Material 'X' used 33,000 units @ Rs.7.00 per unit

Labour worked 48,000 hours and rate paid to workers Rs.12.50 per hour.

Required:

Calculate the following:

- | | |
|--|----|
| (i) Materials quantity (usage) variance. | 01 |
| (ii) Materials price variance. | 01 |
| (iii) Labour time variance. | 01 |
| (iv) Labour rate variance. | 01 |
- (b)** The normal capacity of a plastic extrusion plant is 40,000 direct labour hours per month. At normal capacity the budgeted factory overhead are Rs.21.00 per direct labour hour consisting of Rs.200,000 fixed expenses and Rs.16.00 per hour variable expenses. During a month the plant operated 36,000 direct labour hours, with actual factory overhead of Rs.800,000. The standard for the capacity attained is 35,000 hours.

Required:

Calculate the following:

- | | |
|------------------------------|----|
| (i) Spending variance. | 02 |
| (ii) Idle capacity variance. | 02 |
| (iii) Efficiency variance. | 02 |
| (iv) Total variance. | 02 |
- (c)** The following data has been taken out from the record of Osman Bros., based on the financial results for the year ending 30th June 2008:

Break even sales	Rs.2,000,000
Contribution margin ratio	40%
Profit for the year ending 30 th June 2008	Rs. 320,000

Required:

Calculate the following:

- | | |
|---------------------------------------|----|
| (i) Fixed expenses for the year. | 02 |
| (ii) Sales for the year. | 03 |
| (iii) Variable expenses for the year. | 02 |
| (iv) Margin of safety ratio. | 03 |

THE END