

INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN



Fall (Winter) 2009 Examinations

Saturday, the 21st November 2009

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 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)** “Management Accounting is not as important or useful for non-profit organizations such as hospitals and government as it is useful for private business firms, since these organizations do not strive to make profits”. Comment on this statement. 04
- (b)** For each of the following, indicate whether it is identified primarily with management accounting (MA) or financial accounting (FA): 05
- (i) Draws heavily from other disciplines such as economics and statistics
 - (ii) Prepares financial statements
 - (iii) Provides financial information to internal managers
 - (iv) Emphasizes the past rather than the future
 - (v) Focuses on relevant and flexible data
 - (vi) Is not mandatory
 - (vii) Focuses on the segments as well as the entire organization
 - (viii) Is not subject to generally accepted accounting principles
 - (ix) Is built around the fundamental accounting equation of debits equal to credits
 - (x) Recognizes standards that are used for presentation.
- (c)** A schedule of cost of goods manufactured of ABC Plastic Manufacturing Company shows following information:

Inventories	Amount in Rs.	
	Beginning	Ending
Raw material	45,000	38,000
Work-in-process	150,000	125,000
Finished goods	75,000	37,500

Additional Information:

- Company's current sale is Rs.1,085,000.
- Current purchases are Rs.400,000.
- The company policy of profit margin is 40% on cost of goods sold.
- Factory overhead is charged at the rate of 30% of direct labour cost.

Required:

Compute the following:

- (i) Cost of goods sold 02
- (ii) Cost of goods manufactured 02
- (iii) Direct labour cost 03
- (iv) Factory overhead 02

PTO

Q. 3 (a) Explain labour efficiency. How it is determined or measured?

04

(b) TUV Company prepares monthly production budgets for its three departments. Budgeted and actual figures for October 2009 are shown below:

Department	Budgeted Hours	Actual Labour Cost (Rs.)	Units Produced
Mixing	1,100	2,090,240	1,480
Processing	3,320	6,032,000	1,230
Packing	580	814,080	1,600

The following standard data have been adopted for preparing budget and controlling the labour cost:

Department	Standard Hour(s) per Unit	Standard Labour Cost per Hour (Rs.)
Mixing	3	488
Processing	10	520
Packing	1	480

Required:

Prepare a labour efficiency (cost control) report for the month of October 2009.

06

(c) The following information is given for the Star Company:

Annual demand - units	360,000
Lead time - weeks	5
Weeks per year.	50
	<u>Rs.</u>
Carrying cost per unit	2
Cost per order	100

Required:

Calculate:

- (i) Economic order quantity (EOQ) 02
- (ii) Optimum number of orders 01
- (iii) Total carrying and ordering costs 02
- (iv) Optimal reorder point 02

Q. 4 (a) A schedule of cost of goods manufactured is as under:

	<u>Rs.</u>
Material used	288,000
Direct labour	800,000
Overhead cost	<u>640,000</u>
Total manufacturing cost	<u>1,728,000</u>
Work-in-process ending inventory	<u>237,600</u>

Required:

Calculate:

- (i) The rate of factory overhead to direct labour in percentage. 02
- (ii) The rate of material to factory overhead in percentage. 02
- (iii) Amount of factory overhead in work-in-process ending inventory, when material is Rs.39,600 in work-in-process ending inventory. 02
- (iv) Amount of direct labour work-in-process ending inventory. 02

Prove your answer as calculated in requirement # (a) (iii) and (a) (iv) above.

02

(b) Following information is related to a job:

Materials		Labour	
Qty	Rs. per unit	Hours	Rs. per hour
100	10	40	20
110	12	20	22
120	11	30	18
108	9	45	16
110	8	40	15

Factory overhead is Rs.18 per labour hour, marketing expense is 25% and administrative expense is 20% of total factory cost. Margin is 50% of total cost.

Required:

Prepare a Job Order Cost Sheet showing clearly the:

- (i) total factory cost. 04
- (ii) total marketing and administrative expenses. 01
- (iii) profit margin. 02
- (iv) sales amount. 01

Q. 5 (a) What are some causes of unfavourable material purchase price variance? 03

(b) A company having various processes compiled the following data for one of its processes:

Quantity Schedule:	Units
Received from dept-1	22,000
Transferred to dept-3	15,000
Work-in-process	5,000
Material	100% Completed
Conversion	50% Completed

Cost added	Rs.
From preceding dept.	110,000
Cost added:	
Material	58,000
Labour	28,000
Factory overhead (FOH)	39,375

Required:

Calculate:

- (i) Lost units 02
- (ii) Unit cost from preceding department 02
- (iii) Unit cost of material added 02
- (iv) Unit cost of labour added 02
- (v) Unit cost of FOH added 02
- (vi) Adjusted unit cost of lost units 02
- (vii) Total amount of cost and unit cost transferred to next department 02
- (viii) Total amount of work-in-process and details of total amount 02

Q. 6 (a) The Pahntom Tool Corporation manufactures a variety of machine tools. The following information is taken from the budget for the year 2010:

	Amount in Rs.
Sales (10,000 units)	200,000
Variable costs	120,000
Fixed costs	90,000

Required:

Calculate:

- (i) The break-even point in units for 2010.
02
- (ii) The sales volume necessary to earn an after-tax net income of Rs.16,000 if the income tax rate is 40 percent.
02
- (iii) The sales volume necessary to earn a profit before tax equal to 10 % of sales.
02
- (iv) The effect of 10 % price increase on the break-even point.
02
- (v) State the principal assumptions underlying the break-even calculations.
02

(b) VXR Company sells a component with a contribution margin of 40% on sales of Rs.500,000 per year (50,000 units at Rs.10). The fixed costs are Rs.80,000 per year.

Required:

Calculate:

- (i) Increase in net income expected in the coming year if sales will increase by 10,000 units.
01
- (ii) Increase in net income expected in the coming year if sales will increase by Rs.70,000.
01

State:

- (iii) Should the advertising budget be increased when the sales manager feels that an increase of Rs.20,000 in the yearly advertising budget would increase annual sales by Rs.60,000?
02
- (iv) Should this policy be approved when the sales manager suggests cutting the present selling price by 10 percent and increasing the advertising budget by Rs.25,000? If these two decisions are made, it is projected that unit sales will go up by 40 percent.
04

THE END