INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

Winter (November) 2011 Examinations

Friday, the 18th November 2011

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

STAGE-2

Time Allowed: 2 Hours 45 Minutes **Maximum Marks: 90** **Roll No.:**

(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 inside 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.
(viii) **Question Paper must be returned to invigilator before leaving the examination hall.**

Marks

Q. 2 (a) What is a service department? State some characteristics of a service department in connection with the determination of a product cost. 04

(b) Hassan Company has a job-order costing system. The company applies manufacturing overhead to jobs using a predetermined overhead rate based on direct labour cost. The information below has been taken from the cost records of Hassan Company for the past year:

	Rs. '000'
Direct materials used in production	1,250
Total manufacturing costs charged to production during the year (includes direct materials, direct labour, and applied factory overhead)	6,050
Manufacturing overhead applied	2,800
Selling and administrative expenses	1,000

Inventories	**Beginning**	**Ending**
Direct materials	130	80
Work in process	250	400
Finished goods	300	200

Required:

Compute the followings:

(i) Cost of direct materials purchased during the year. 02

(ii) Predetermined overhead rate that was used during the past year. 02

(iii) Cost of goods manufactured for the past year. 02

(iv) Cost of goods sold for the past year. 02

Q. 3 (a) The management of Waqas Corporation requires some capital for planned expansion. The financial controller proposes to change the inventory valuation base from FIFO to LIFO method to get net tax advantage which may contribute to additional capital requirement.

PTO

The Financial Controller analyses following transactions related to the inventory for the month of June:

Date		Transactions	Units	Rs. Per unit
June	1	Beginning balance	2,000	3,000
	2	Purchased	5,000	3,200
	7	Issued	4,000	
	11	Purchased	3,000	3,300
	14	Issued	4,000	
	17	Purchased	4,000	3,200
	21	Issued	2,000	
	24	Purchased	3,000	3,400
	26	Purchased	4,000	3,500
	29	Issued	6,000	

Perpetual inventory costing is used.

Sales were 16,000 units @ Rs. 7000 per unit; marketing and administrative expenses were Rs.21 million.

Required:

Assuming that LIFO method is also acceptable by tax authorities, prepare:

(i) Comparative income statements based on the transactions for June, using the LIFO and FIFO methods and a 35% income tax rate. 11

(ii) The cash position of the Waqas Corporation at the end of June, assuming that all transactions, purchases, sales, and non-manufacturing expenses were paid in cash. 02

(b) Arshad & Arshad are considering to introduce an incentive scheme to achieve maximum efficiency of the employees on the one hand and to reduce the overheads like lighting, supervision etc., on the other hand. Following data is available for comparison of three (3) different schemes ‘A’, ‘B’ and ‘C’:

Standard production for an employee in the Assembly Department is 20 units per hour in an 8-hour day. The hourly wage rate is Rs. 75.

A) If an incentive plan is used, with the worker receiving 80% of the time saved each day, and records indicate:

	Units	Hours
Saturday	160	8
Sunday	170	8
Monday	175	8

B) If the 100 Percent Bonus Plan is used and 880 units are produced in a 40-hour week.

C) If an incentive plan is used, providing an hourly rate increase of 5% for all hours worked each day that standard production is achieved, and records indicate:

	Units	Hours
Saturday	160	8
Sunday	168	8
Monday	175	8

Required:

(i) Calculate the employee’s earnings under each of the three (3) schemes (carrying all computations to three decimal places). 10

(ii) Workout per unit labour cost of assembly department under each of the three (3) schemes. 01

Marks

Q. 4 (a) Hammad Company has decided to distribute the costs of service departments by the algebraic method. The producing departments are PDN-1 and PDN-2, the service departments are SR-1 and SR-2, and the monthly data are as under:

Departments	ACTUAL FACTORY OVERHEAD COSTS BEFORE DISTRIBUTION	SERVICES PROVIDED BY	
	Rs. in million	SR-1	SR-2
PDN-1	84.0	40%	50%
PDN-2	58.0	50	30
SR-1	20.0	–	20
SR-2	17.6	10	–

Required:

Work out total factory overhead of producing department 'PDN-1' after distribution of service departments costs. 09

(b) The trial balance of the Ettehad Company shows the following balances as on October 01, 2011:

		Rs.
Cash	51,600	
Accounts receivable	95,480	
Allowance for doubtful debt		5,650
Finished goods	157,400	
Work in process	170,800	
Materials	89,760	
Building	240,000	
Accumulated depreciation – building		96,000
Equipment	474,480	
Accumulated depreciation – equipment		230,420
Accounts payable		108,540
Accrued payroll		13,200
Common stock		160,000
Retained earnings		665,710
	1,279,520	1,279,520

During the month of October, following transactions took place:

		Rs.
(a)	Materials purchased on account	80,000
(b)	Direct materials issued	130,000
	Indirect materials issued	7,000
(c)	Materials returned to supplier	1,800
(d)	Total payroll (direct labour)	160,000
	Total payroll (indirect labour)	19,000
	(Assume that there are no payroll deductions)	
(e)	Wages paid	150,000
(f)	Sundry manufacturing expense incurred	84,000
(g)	Marketing and administrative expenses incurred	17,000
(h)	Accounts receivable collected	600,000
(i)	Accounts payable paid	270,000
(j)	Depreciation to be provided for October at the rate of 2% per annum on building; 10% per annum on equipment	?
(k)	Factory overhead applied to production at 60% of direct labour cost	?
(l)	Work in process, October 31	150,000
(m)	Cost of goods sold	410,000
(n)	Sales on account	570,000

Required:

Prepare journal entries for the above transactions. 20

PTO

Marks

Q. 5 (a) The standards for product "Fine" call for 2.7 pounds of a raw material that costs Rs.16.50 per pound. Last month, 4,100 pounds of the raw material were purchased for Rs.70,520. The actual output of the month was 1,300 units of product "Fine". A total of 3,500 pounds of the raw material were used to produce this output.

Required:

Calculate the:

(i) materials price variance for the month. 02

(ii) materials quantity variance for the month. 03

(b) The following direct labour standards have been established for product "Nice":

- Standard direct labour-hours 3.3 hours per unit of "Nice"
- Standard direct labour wage rate Rs.10.50 per hour

The following data pertain to the most recent month's operations during which 400 units of product "Nice" were made:

- Actual direct labour-hours worked 1,100
- Actual direct labour wages paid Rs.11,385

Required:

(i) Calculate labour rate variance for the month. 02

(ii) Calculate labour efficiency variance for the month. 03

(iii) Prepare a journal entry to record direct labour costs during the month, including the direct labour variances. 02

Q. 6 (a) Danish Corporation's variable manufacturing overhead is applied on the basis of direct labour-hours. The company has established the following variable manufacturing overhead standards for product HB:

- Standard direct labour-hours 2.5 hours per unit of HB
- Standard variable manufacturing overhead rate Rs. 7.70 per hour

The following data pertain to the most recent month's operations during which 2,160 units of product HB were made:

- Actual direct labour-hours worked 5,200
- Actual variable manufacturing overhead incurred Rs.44,980

Required:

(i) Calculate the variable overhead spending variance for the month. 03

(ii) Calculate the variable overhead efficiency variance for the month. 04

(b) Olive Company, which has only one product, has provided the following data concerning its most recent month operations:

	Units	Rs.
Selling price		1,430
Beginning inventory	0	
Units produced	1,200	
Units sold	1,000	
Ending inventory	200	
Variable costs per unit:		
Direct materials		330
Direct labour		520
Manufacturing overhead		10
Selling and administrative		70
Fixed costs:		
Manufacturing overhead		384,000
Selling and administrative		40,000

Required:

Prepare income statement on the basis of marginal costing. 06

THE END