INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

Winter (November) 2011 Examinations

Thursday, the 17th November 2011

COST AND MANAGEMENT ACCOUNTING-PERFORMANCE APPRAISAL – (S-303)
STAGE-3

Extra Reading Time:	**15 Minutes**	**Maximum Marks: 90**	**Roll No.:**
Writing Time:	**02 Hours 45 Minutes**		

(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.**

Answer Script will be provided after lapse of 15 minutes Extra Reading Time (9:30 a.m. or 2:30 p.m. [PST] as the case may be).

Marks

Q. 2 The Chief Executive Officer of a company desires to use marginal costing method for decision making instead of absorption costing method. Following data has been summarized from the cost accounting records:

	Rs.'000'
Fixed cost per annum	
Factory overhead	2,500
Marketing & distribution	500
General & administrative	750
Total	3,750
Adverse variance from standard variable factory cost	2,500

	Rs./ Unit
Selling price	5,000
Standard variable factory cost	2,000
Variable marketing & distribution cost	500

	Units
Opening inventory	1,000
Actual production during the year	30,000
Sales for the year	28,000
Annual normal capacity & budgeted production for the year	40,000

All variances are written off directly at year-end as an adjustment of cost of sales.

Required:

Prepare Income Statements for the year under following methods:

(i) Marginal costing system; and 05

(ii) Absorption costing system. 07

PTO

Marks

Q. 3 (a) ABC & Company operates a production process which produces joint products 'X' and 'Y' and a by-product 'Z'. Following is the summarized data incurred in the production costs of Rs.1,364,630 for the month of October, 2011 :

Products	Market Price Per Kg.	Production in Kgs.
X	Rs. 30.50	16,000
Y	Rs. 37.50	53,200
Z	Rs. 4.00	2,770

The company uses market price to apportion joint costs.

Required:

Calculate the cost per Kg of Joint Products 'X' and 'Y'. 08

(b) In a manufacturing company, product Beta is produced using raw materials 'A' and 'B' that are mixed in proportions of 1:2. Materials are purchased at following rates :

Materials	Rupees per Kg.
A	25
B	8

5% normal weight loss is expected during the process. In the month just ended 9,130 Kgs of product Beta were produced from 9,660 Kgs of raw materials. Conversion costs were Rs. 118,980. There was no work in progress at the start and end of that particular month.

Required:

(i) Calculate total production cost and cost per Kg of Beta. 04

(ii) Prepare process account of product Beta. 04

Q. 4 (a) Briefly identify the purposes of a standard costing. 05

(b) A manufacturing company uses a standard cost system which records materials at actual cost and records the material price variance when materials are issued to work in process and prorates all variances at the end of the year. Variances associated with direct materials are prorated based on the direct materials balances in the appropriate accounts and variances associated with direct labour and factory overhead are prorated based on the direct labour balances in the appropriate accounts.

The following information is available for the year ended June 30, 2011 :

	Rs. in '000'
Materials inventory as at June 30, 2011	3,250
Finished goods inventory as at June 30, 2011 :	
• Direct materials	4,350
• Direct labour	6,525
• Applied factory overhead	5,220
Cost of sales for the year ended June 30, 2011 :	
• Direct materials	17,400
• Direct labour	36,975
• Applied factory overhead	29,580
Factory overhead incurred	34,500
Variances :	
• Materials price variance (unfavourable)	500
• Materials quantity variance - favourable	750
• Labour rate variance (unfavourable)	1,000
• Labour efficiency variance - favourable	250

Marks

There were no opening inventories and no ending work in process inventory. Factory overhead is applied at 80% of standard direct labour.

Required:

Calculate the following as at / for the year ended June 30, 2011:

(i) Direct materials price variance to be prorated to finished goods inventory. 05

(ii) Direct materials cost in the finished goods inventory after all variances have been prorated. 05

(iii) Direct labour cost in the finished goods inventory after all variances have been prorated. 05

(iv) Cost of sales, after all variances have been prorated. 05

Q. 5 XYZ & Company produces and sells three wooden furniture items. The company is expected to sell 4,200 chairs, 800 tables and 500 stools during the current quarter ended December 31, 2011. The following information are available for the purpose of preparing budgets :

Material and labour requirements :	Chairs	Tables	Stools
Timber per unit (in cubic feet)	0.5	1.2	2.5
Upholstery per unit (in square metres)	0.25	-	-
Carpenter's time (minutes per unit)	45	60	75
Fixer and finisher's time (minutes per unit)	15	15	30
Selling price per unit in Rupees	500	850	1,580

- Timber costs Rs. 500 per cubic feet and upholstery costs Rs. 200 per square meter.
- Fixing and finishing material costs 5% of the cost of timber and upholstery.
- Carpenter gets Rs. 60 per hour while the fixer and finisher gets Rs. 48 per hour.

Inventory levels planned:	Timber	Upholstery	Chairs	Tables	Stools
Unit of measurement	Cubic feet	Square metre	Units	Units	Units
Opening	600	400	400	100	50
Ending	650	260	200	300	50

Fixed overheads would be Rs. 80,000 per month.

Required:

Prepare the following for the quarter ended December 31, 2011 :

(i) Production Budget showing quantities to be produced. 03

(ii) Materials Purchase Budget in volume and amount. 06

(iii) Direct Labour Cost Budget. 05

(iv) Statement showing Variable Cost of Production per unit for all three products. 07

(v) Budgeted Income Statement for the quarter showing product-wise contribution margin. 04

PTO

Marks

Q. 6 An organization has two divisions, 'X' Division and 'Y' Division. 'X' Division produces two products 'A' and 'B'. Product 'A' is sold to external customers for Rs. 210 per unit. The only outlet for product B is 'Y' Division.

'Y' Division supplies to an external market and can obtain its semi-finished supplies (product B) from either 'X' Division or from an external source. Division 'Y' currently has the opportunity to purchase product 'B' from an external supplier for Rs. 190 per unit. The capacity of 'X' Division is measured in unit of output, irrespective of whether product 'A', 'B' or combination of both are being produced. The associated product costs are as follows:

	Rupees	
Product	'A'	'B'
Variable costs per unit	160	175
Fixed overheads per unit	25	25
Total costs per unit	185	200

Required:

As a management accountant, advise the management on the determination of an appropriate transfer price for the sale of Product 'B' from 'X' Division under the following two options:

(i) 'X' Division has spare capacity and limited external demand for product 'A'. 06

(ii) 'X' Division is operating at full capacity with unsatisfied external demands for product 'A'. 06

THE END