

INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN



Summer (May) 2011 Examinations

Monday, the 30th May 2011

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

STAGE - 2

Time Allowed: 02 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 after finishing/ writing the exam.**

- | | Marks |
|---|-------|
| Q. 2 (a) Following are the various information provided by the costing system. Briefly explain how these information are used by the management? | |
| (i) Cost per unit of production or service or for a process. | 01 |
| (ii) Cost of running a section, department or factory. | 01 |
| (iii) Wages cost for a unit of production or per period of production. | 01 |
| (iv) Scrap/ rectification cost. | 01 |
| (v) Cost behaviour with varying levels of activity. | 01 |
| (b) Explain the following terms used in cost accounting: | |
| (i) Direct cost and indirect cost | 02 |
| (ii) Product cost and period cost | 02 |
| (iii) Controllable cost and uncontrollable cost | 02 |
| Q. 3 (a) The information is given for the Rahman & Company for the month of April 2011 as under: | |

	Rs.	
Raw material purchases	120,000	
Direct labour (21,000 DLH @ Rs.13)		
Indirect labour	11,200	
Factory supplies used	350	
Other expenses:		
Depreciation -factory equipment	17,300	
Depreciation office equipment	3,500	
Insurance-factory	1,770	
Insurance-office	2,570	
Repair & maintenance-factory	7,400	
Office supplies expense	900	
Inventories:	Beginning	Ending
Raw material	17,400	13,200
Work in process	31,150	28,975
Finished goods	19,200	25,500

Required:

Calculate:

- (i) Total manufacturing cost 05
- (ii) Cost of goods manufactured 01
- (iii) Cost of goods sold 01

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- (b) During one week of operations, a materials ledger card reflected the following transactions:

1st day	Beginning balance: 1,400 kgs @ Rs.4.60 per kg
2nd day	Received 1,000 kgs @ Rs.4.80 per kg
3rd day	Issued 800 kgs
4th day	Issued 800 kgs
5th day	Received 1,200 kgs @ Rs.5.00 per kg
6th day	Issued 800 kgs

Other costs for the week were direct labour, Rs.4,800, and factory overhead Rs.4,360. During the week 1,700 units of the product were completed and 1,500 units were sold. There was no beginning inventory of finished goods, and no work was in process over the weekend.

Required:

Prepare ledger accounts for materials, work in process, finished goods, and cost of goods sold, using FIFO method. A perpetual inventory system is used. (round off unit costs to three decimal places).

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- Q. 4 (a)** The Ehsan Company is interested in improving its control over labour costs. The Accounting Department assembled the following data for September:

Labour Activity	Actual Hours	Actual Expense (Rs.)
Productive labour time	8,000	63,900
Setup time	200	1554
Cleanup time	110	662
Downtime	350	2,776

A predetermined standard of 7,700 hours of productive labour has been provided. Statistical analysis has established that setup time, cleanup time and downtime should be 3%, 1%, and 4%, respectively of standard production time allowed. The standard labour rate is Rs.8 per hour.

Required:

Prepare a labour performance report for September, including total variances and labour efficiency variances, to be sent to the plant manager.

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- (b) The Taimur Company has four producing departments and three service departments. The estimated annual overhead for these seven departments is as follows:

Estimated Expenses	Producing Departments				Service Departments		
	01	02	03	04	Maintenance	Tool room	Store room
Fixed factory overhead	36,000	48,000	45,000	30,000	15,000	10,500	12,000
Variable factory overhead	24,000	22,000	20,000	20,000	10,800	10,500	3,000
Total	60,000	70,000	65,000	50,000	25,800	21,000	15,000

The variable overhead of the service departments is distributed on the following bases:

Department	Maintenance (Area sq. ft)	Toolroom (No. of employees)	Storeroom (No. of material requisitions)
No.01	12,000	50	30,000
No.02	10,000	40	30,000
No.03	9,000	30	28,000
No.04	5,000	30	12,000
Maintenance	5,000	10	-
Toolroom	3,000	5	-
Storeroom	1,000	5	-

Fixed overhead of these three service departments is to be distributed as follows:

Service Departments	Rs.				
	Total	01	02	03	04
Maintenance	15,000	5,000	4,000	3,000	3,000
Toolroom	10,500	3,500	2,500	2,500	2,000
Storeroom	12,000	6,000	3,000	2,000	1,000

No service department's cost is to be prorated to other service departments.

Required:

- Prepare factory overhead distribution sheet on the basis of the data and instructions given. 08
- Calculate factory overhead rates for the four producing departments, based on the following predetermined machine hours, direct labour hours, and direct labour cost: 02

Producing Departments	Bases
No. 01	33,000 machine hours
No. 02	32,000 machine hours
No. 03	39,070 direct labour hours
No. 04	Rs.59,960 labour cost

Q. 5 (a) Star Company manufactures a single product on a integrated processing plant in three departments. The data for the month of April for Department 1 was as under:

- Beginning work-in-process 2000 units (fully completed as to material and 50% completed as to conversion cost) comprising material cost of Rs.1,000, labour cost of Rs.620 and factory overhead cost of Rs.600.
- Cost added during April are: material Rs.9,920, labour and factory overhead Rs.12,090 and Rs.11,290 respectively.
- Additional 20,000 units were put into process for production.
- 19,000 units were completed and transferred to next department.
- 500 completed units were on hand (still awaiting transfer) and work-in-process ending inventory was 1,500 units (fully completed as to material and 2/3 completed as to conversion cost).
- The balance was lost within the department. The company applies weighted average method to all inventories (for valuation).

Required:

Work out the following:

- A quantity schedule; 02
- Schedule of equivalent production; 03
- Total cost charged and unit cost of material, labour and factory overhead.; 04
- Total cost accounted for by Department 1. 03

(b) The Deluxe Company has a budgeted normal monthly capacity of 10,000 labour hours, with a standard production of 8,000 units at this capacity. Standard costs are:

Materials	2 kg @ Rs.50
Labour	Rs.9 per hour
Factory overhead at normal capacity:	
Fixed expense	Rs.5,000
Variable expense	Rs.1.50 per labour hour

During May, actual factory overhead totalled Rs.17,550 and 9,000 labour hours costing Rs.76,500. During the month, 7,000 units were produced using 14,400 kgs of materials at a cost of Rs.51 per kg.

Required:

Calculate two variances for materials, two variances for labour, and two variances for factory overhead.

- Q. 6 (a)** The accounting department of the Kaleem Corporation gathered the following cost and other data:

Normal annual activity:	40,000 direct labour hours
Annual total fixed manufacturing cost:	Rs. 60,000.
Hours required to produce a unit of product:	5 hours
Direct materials and direct labour cost:	Rs. 28 per unit of product
Variable factory overhead per unit of product:	Rs. 5 (5 hours @ Re.1 per hour)
Sales price per unit of product:	Rs. 45

Required:

- (i) Using the plant's normal activity level as the base, calculate the total manufacturing cost per unit of product based on (a) absorption costing and (b) direct costing. 02
- (ii) Work out comparative gross profit statements using absorption costing, based on the following four situations. 08

Year	Units produced	Units sold
1st	8,000	7,000
2nd	10,000	6,000
3rd	7,000	7,000
4th	4,000	9,000

- (b)** During the year, Kids Company produced and sold 100,000 units of a product. The unit sales price was Rs.100. Standard and actual costs per unit, based on a production of 100,000 units, were:

	Rs.
Variable cost	25
Fixed cost	50
Total	75

Required:

Calculate:

- (i) Operating income according to the direct costing method. 02
- (ii) Break-even point in rupees. 02
- (iii) Break-even point in units. 01
- (iv) Margin of safety ratio at the given sales level. 02

THE END