INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

Summer (May) 2011 Examinations

Thursday, the 26th May 2011

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

Extra Reading Time: **15 Minutes**	**Writing Time:** **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.**

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 A steel manufacturing company produces filing cabinets. The company has a simple Activity Based Costing (ABC) system which has the following activity cost pools and activity measures:

Activity cost pool	Activity measures
Assembling units	Number of units
Processing orders	Number of orders
Supporting customers	Number of customers
Others	Not applicable

The company has two types of overhead with following cost break-up:

	Rs. '000'
Production overhead	2,000
Selling and administrative overhead	1,200
Total overhead costs	3,200

The company allocates the overhead cost to the activity cost pools on following basis:

Distribution of Resources Consumption Across Activity Cost Pools	Assembling Units	Processing Orders	Supporting Customers	Others
Production overhead %	50	35	05	10
Selling and administrative overhead %	10	45	25	20
Total activity	1000 units	250 orders	100 customers	

Selling price of a filing cabinet is Rs. 2,380. Per unit cost of direct materials and direct labour are Rs. 720 and Rs. 200 respectively. Last month, a customer ordered 80 cabinets (in total) at four different times.

Required:

Calculate the following:

(i) Allocate total overhead costs to the activity cost pools 03

(ii) Activity rates for the activity cost pools 03

(iii) Overhead cost attributable to four orders for 80 cabinets 03

(iv) Customer margin 03

PTO

Marks

Q.3 The following data relate to a process of a single product in a manufacturing company for the month of April 2011:

		%	Units	Rs.
(i)	Opening work-in-process		10,000	
	Degree of completion:			
	Raw materials	100		60,000
	Labour	60		36,000
	Overheads	60		18,000
(ii)	Receipts from previous process		100,000	427,500
(iii)	Expenses incurred during the month:			
	Raw materials			197,500
	Labour			345,575
	Overheads			172,800
(iv)	Closing work-in-process		7,500	
	Degree of completion:			
	Raw materials	100		
	Labour & overheads	50		
(v)	Scrapped units		10,000	
	Degree of completion:			
	Raw materials	100		
	Labour & overheads	80		
(vi)	Normal loss 5% of current input			
(vii)	Spoiled units sold @ Rs.1.50 each			

Units completed are transferred to warehouse. The company uses the FIFO method of valuation.

Required:

Prepare:

(a) Statement of equivalent units; 04

(b) Statement of cost per equivalent unit and total cost; 07

(c) Process account. 05

Q.4 **(a)** Identify and explain briefly the criticisms on standard costing. 06

(b) ABC & Company uses standard costing system for manufacturing a single product. The standard cost data of a unit is as follows:

							Rs.
Direct material	20	kgs.	@	Rs.	6	per kg.	120
Direct labour	1	hour	@	Rs.	44	per hour	44
Variable overhead	1	hour	@	Rs.	30	per hour	30

Following data is available for 6,000 units manufactured during the period:

Direct material purchased – 190,000 kgs. @ Rs. 5.70 per kg.

Direct material consumed – 126,700 kgs

Direct labour ____?_____ hours @ Rs.____?_____ per hour = Rs.279,500

Variable overheads incurred Rs.204,750

The unfavourable variable overhead efficiency variance is Rs.15,000. Variable overheads are based on direct labour hours. There was no opening material inventory.

Marks

Required:

Calculate:

(i)	Missing figures of direct labour hours.	02
(ii)	Missing figures of direct labour hour rate.	02
(iii)	Total standard and actual costs.	04
(iv)	Material price and usage variances.	04
(v)	Labour rate and efficiency variances.	04
(vi)	Variable overhead efficiency and budget variances.	04

Q.5 The budgeted balance sheet as on March 31, 2011 of Haroon Limited is as follows:

Assets and Equities				Rs. '000'
Non-current assets:				
Property, plant and equipment:	Cost	Accumulated Depreciation	Written Down Value	
Land and building	500,000	–	500,000	
Plant, machinery and equipment	124,000	84,500	39,500	
Motor vehicles	42,000	16,400	25,600	565,100
Current assets:				
Inventories:				
Raw materials (50,000 kgs)				4,320
Finished goods (55,000 units)				10,450
Accounts receivable				18,080
Cash and bank balances				6,790
Total assets				604,740
Share Capital and Reserves:				
Issued, subscribed and paid-up capital				500,000
Unappropriated profit				100,840
Total shareholders equity				600,840
Current liabilities:				
Accounts payable for materials				3,900
Total equity and liabilities				604,740

Estimation for next three months	April	May	June
• Selling units	40,000	42,000	48,000
• Production units	35,000	37,500	45,000
• Purchase of raw materials (kgs)	40,000	40,000	42,500

	Rs.
• Direct labour and variable overheads per unit.	130
• Selling price per unit.	438
• Purchase cost of raw materials per kg.	90
One (01) kg is required for producing each finished unit.	
• Cash & bank balances as on June 30, 2011.	16,913,000
• Profit for the quarter ended June 30, 2011.	9,835,000

The company uses the FIFO method for inventory valuation. Finished goods are valued on the basis of variable costing. All purchases of materials and sales are on credit. Customers are allowed two (02) month's credit and suppliers of materials are paid after one month of purchase. There is no work-in-process inventory.

The company expected to obtain a short-term bank loan of Rs.114 million in April, 2011 to meet capital expenditure in May 2011.

PTO

Marks

Machinery of Rs.112 million will be capitalized in May 2011. Depreciation for next 3 months, including new machinery, is estimated as follows:

	Rs. '000'
Machinery and equipment	15,733
Motor vehicles	3,500

Required:

Prepare the following for the quarter ended June 30, 2011:

(i) Monthly and quarterly variable production cost budget. 04

(ii) Projected balance sheet as on June 30, 2011 (show separate workings for inventories and accounts receivable) 20

Q.6 Cost Accountant of a company has prepared the following report that provides the divisional performance of three divisions for the last quarter ending March 31, 2011:

		Rs. in million	
Divisions	A	B	C
Sales	28	100	72
Variable cost	12	40	30
Contribution margin	16	60	42
Fixed cost:			
Advertising – traceable	8	22	12
Depreciation of special equipment	4	8	8
Salaries – supervisors	1	1	1
Common fixed cost	6	20	14
Net operating income / (loss)	(3)	9	7
Divisional capital employed	24	65	49

Management decided to discontinue the operation of Division-A. The special equipment used in Division-A has now no written down (on resale) value. Supervisors of the division will be discharged. Common fixed cost will continue to incur as a whole. The company requires minimum 15% rate of return on divisional capital employed.

Required:

(i) Calculate the rate of return of capital employed for each divisions and total as a whole for the company. 04

(ii) Reconstruct the above profit statement for each division and total as a company in a format that would be more useful to management in evaluating the divisional performance before discontinuation of Division-A. 04

(iii) Calculate the impact of discontinuation of Division-A on overall net operating income of the company. 04

THE END