

**INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS
OF PAKISTAN**

PROFESSIONAL-II EXAMINATION-SPRING (SUMMER), 2004 1486

Tuesday, the 25th May, 2004

OPERATIONAL COST ACCOUNTING

Time Allowed—2 Hours 40 Minutes

Maximum Marks—90

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- (i) Attempt ALL questions.
 - (ii) Answers must be neat, relevant and brief.
 - (iii) Use of non-programmable scientific calculators of: O Casio fx-82 LB, O Casio fx-82 Super, O Casio fx-350 D, O Casio fx350 HA models is allowed.
 - (iv) In marking paper, the examiners take into account clarity of exposition, logic of argument, effective presentations, language and use of clear diagram/chart where appropriate.
 - (v) Read the instructions printed on the top cover of answer script CAREFULLY before attempting the paper.
 - (vi) DO NOT write your Name, Reg. No. or Roll No. any where inside the answer script.
 - (vii) Question No. 1 "Multiple Choice Question" printed separately, is an integral part of this paper.
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- | | Marks |
|---|-------|
| Q. 2 (a) What are the limitations of break-even analysis? | 5 |
| (b) Muzammal & Co. is a whole-sale distributor of candy. Small but steady growth in sales has been achieved by the company over the past few years while candy prices have been increasing. The company is formulating its plans for the coming fiscal year. Presented below are the data used to project the current year's after tax net income of Rs. 110,400. | |

Average sale price per box (Rs)	4.00
	=====
Average variable cost per box:	<u>Rs.</u>
Cost of candy.	2.00
Marketing Expenses	0.40
Total	<u>2.40</u>
	=====
Annual Fixed Costs:	<u>Rs.</u>
Marketing Expenses.	160,000
Administration Expenses.	280,000
Total	<u>440,000</u>
	=====

P.T.O.

Expected annual Sales volume (390,000 boxes) = Rs. 1,560,000. Marks
Income tax rate is 40%.

The manufacturer has announced that it will increase prices of its products on an average of 15% in the coming year due to increases in material and labour costs. The company expects that all other costs will remain at the same rates and levels as that of the current year.

Required :

- (i) The break even point in boxes of candy for the current year. 6
 (ii) The Sales Price per box, the company must charge to cover the 15% increase in the cost of candy and still maintain the current contribution margin ratio. 6
 (iii) The volume of Sales (Rs.) the company must achieve in the coming year to maintain the same net income as projected for the current year if the sales price remains at Rs. 4 per box and the cost of candy increases by 15%. 6
- Q. 3 (a) The advertising policy of a company includes showing the plant to customers. Visitors are received and guides are provided from the Production Staff. 5
- (i) How should this cost be treated in the records?
 (ii) What adequate control of this expenditure can be provided from the point of view of production and sales promotion.
- (b) Asim & Co. manufactures a product which sells for a well established price of Rs. 15/- under present business conditions. The company is operating at 40% of capacity with production and sale of 6000 units per month
 An analysis of costs for recent month shows:

	<u>Rs.</u>
Direct labour	13,000
Superintendent's salary	2,200
Depreciation of building (Straight line method)	2,000
Direct materials	8,700
Heat and light	400
Indirect labour	2,800
Miscellaneous supplies	1,000
Depreciation of machinery (Straight line method)	4,500
Machinery repairs	600
Property tax	800
Fire Insurance	100
Miscellaneous expenses.	1,400
Total	<u>37,500</u> =====

The total marketing expenses were Rs. 30,000 which included Rs. 1,800 for packing and shipping. The sales on the special order would require a similar unit cost for packing and shipping. The total administrative and general costs were Rs. 4,200.

An offer has been received from a large chain store to purchase 72,000 units to be shipped in equal numbers each month during the coming year. These units would be manufactured with slight modifications under the chain store label. The price offered was Rs. 8/- per unit.

The management of Asim & Company does not expect any improvement in business conditions and feels that the chain store's sales will not affect Asim & Company's sales. The management is a bit hesitant to accept this order, feeling that it will reduce the present operating profit.

Required :

An analysis comparing the operating results if the order is or is not accepted assuming that various items are either completely fixed or variable, depending upon the dominant characteristics of each item and the data given.

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- Q. 4 (a) The development of a budgetary control programme requires specific systems and procedures needed in carrying out management's functions of planning, organising and controlling. Discuss these systems and procedures.
- (b) Pearl Company provides actual data for for the year 2003 and budgeted data for the year 2004, as per following details:

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<u>Particulars</u>	<u>December</u>	<u>December</u>
	<u>31, 2003</u>	<u>31, 2004</u>
	<u>Rs.</u>	<u>Rs.</u>
Trade accounts receivable.	840,000	780,000
Merchandise inventory.	1,500,000	1,400,000
Accounts payable-merchandise.	950,000	980,000

Budgeted sales for the year 2004 are Rs. 12,000,000. Sales for the year 2003 were Rs. 11,000,000. Cash sales average 20% of total sales each year.

Cost of goods sold for the year 2004 is estimated to be Rs. 8,400,000.

Budgeted (2004) variable general & administrative expenses are Rs. 1,200,000. These expenses vary in proportion to sales and are paid 50% in the year incurred and 50% in the following year. Unpaid variable expenses are not included in accounts payable reported above.

Fixed general and administrative expenses, including Rs. 350,000 for depreciation and Rs. 50,000 for uncollectible account expenses total Rs. 1,000,000 per year. Expenses involving cash payments are paid 80% in the year incurred and 20% in the following year. Unpaid fixed expenses are not included in accounts payable reported above.

Required :

Compute:

- (i) Cash to be collected in the year 2004 resulting from sales in the years 2003 and 2004. 5
- (ii) Cash to be disbursed in the year 2004 for purchase of merchandise. 5
- (iii) Cash to be disbursed in the year 2004 for variable and fixed general and administrative expenses 5
- Q. 5 (a) Describe any five of the characteristics which distinguish process costing from job-order costing. Tabulate your answer. 6
- (b) Two machines are being evaluated for possible purchase. Forecasts relating to the two machines are as under :

<i>Particulars</i>	<i>Machine 1</i> <i>Rs.</i>	<i>Machine 2</i> <i>Rs.</i>
Purchase price.	50,000	60,000
Estimated life.	4 Years	4 Years
Estimated scrap value.	None	None

Annual cash benefits before income tax are given below:

<i>Year</i>	<i>Rs.</i>	<i>Rs.</i>
1	25,000	45,000
2	25,000	19,000
3	25,000	25,000
4	25,000	25,000
Income tax rate	40%	40%

Required :

- Compute net present value index for machine 1 and machine 2, using an 8% discount rate. 17

THE END