

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

PROFESSIONAL-I EXAMINATION-SPRING (SUMMER), 2005

Monday, the 30th May, 2005 **1042**

COST ACCOUNTING

Time Allowed—2 Hours 45 Minutes

Maximum Marks—90

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- (i) Attempt ALL questions.
 - (ii) Answers must be neat, relevant and brief.
 - (iii) In marking paper, the examiners take into account clarity of exposition, logic of arguments, effective presentations, language and use of clear diagram or chart, where appropriate.
 - (iv) Read the instructions printed on the top cover of answer script CAREFULLY before attempting the paper.
 - (v) Use of non-programmable scientific calculators of : O Casio fx-82 LB, O Casio fx-82 Super, O Casio fx-350 D, O Casio fx-350 HA, models 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 paper.
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| | | <i>Marks</i> |
| Q. 2(a) | Discuss the advantages and disadvantages of costing a product based on a single blanket overhead rate for the whole factory, instead of separate overhead rates for different production cost centres. | 7 |
| (b) | The Lahore Company estimated factory overheads for 40,000 direct labour hours operating at 100% theoretical capacity, at Rs. 344,000, out of which Rs. 144,000 were fixed. The company, however, works out factory overhead rate at normal capacity level which has been estimated at 90% of the theoretical capacity. The actual direct labour hours worked were 35,000 and the actual overheads were Rs. 310,000. | |

Required :

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| (i) | Factory overhead rate at theoretical and normal capacity levels. | 5 |
| (ii) | The amount of under/overabsorbed factory overheads, if factory overhead rate worked out at theoretical capacity is applied to the actual capacity. | 4 |

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|---------|---|--------------|
| | (iii) The amount of under/overabsorbed factory overhead if the rate at normal capacity is applied. | 3 |
| | (iv) Analysis of the variance based on normal capacity rate into spending and capacity variances. | 3 |
| Q. 3(a) | (i) What are the purposes of the study of cost behaviour? | 4 |
| | (ii) Differentiate between linear and curve-linear variable costs. | 4 |
| (b) | Hamza Corporation has received an inquiry from Waheed Corporation for supply of 250 electric motors. Data for the last year is given below: | |

<u>Particulars</u>	<u>Rs.</u>
- Raw material opening inventory	330,750
- Raw material purchases for the year	3,402,000
- Direct labour cost	1,134,000
- Manufacturing overheads	1,275,750
- Raw material ending inventory	472,500
- Finished goods opening inventory (50 motors)	756,000
- Finished goods ending inventory (75 motors)	
- Selling and distribution expenses 8% of selling price.	
- General & Admn. expenses 7% of selling price	
- Sales (350 motors)	7,560,000

It is expected that during the current year labour cost and manufacturing expenses will increase by 25% and 20% per unit respectively, while material cost will decrease by 10% per unit.

Required :

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|---------|--|----|
| | From the information given above, prepare a statement showing the price to be quoted to Waheed Corporation to achieve the same percentage of net profit on sales that was realized last year. (Prepare and present the workings to support your answer). | 15 |
| Q. 4(a) | "Cost Accounting is considered key managerial partner, providing management with the necessary tools to plan and control activities". Discuss the statement, explaining the nature of cost accounting. | 7 |
| (b) | The following information is available from the books and records of Bright Star Ltd., for the year ended June 30, 2003. | |

<u>Particulars</u>	<u>Material</u>		
	<u>X</u>	<u>Y</u>	<u>Z</u>
Material Inventory July 1, 2002	900 Kgs.	1,500 Kgs.	200 Tons
Material Purchased during the year	8,400 Kgs.	14,000 Kgs.	7,350 Tons
Material Inventory June 30, 2003	700 Kgs.	1,900 Kgs.	800 Tons

Required :

- Compute material turnover ratio for each material and express in number of days the average inventory is held. Give your comments regarding inventory turnover of each material. 15
- Q. 5(a) Write brief notes on the following methods of wage payments to workers: 8
- Straight piece work
 - Hour-for-hour or 100% bonus plan.
 - Group bonus plan.

- (b) The Subul Company has its general office in Lahore and factory in Sheikhpura. A separate set of records is kept at the factory and at the general office. A Trial Balance prepared on April 30, 2004 at factory showed the following:

<u>Accounts</u>	<u>Debit Rs.</u>	<u>Credit Rs.</u>
Materials	35,000	
Work-in-process	78,000	
Finished goods	64,000	
General ledger		177,000
	<u>177,000</u> =====	<u>177,000</u> =====

During the month of May 2004, the following transactions took place.

- Materials purchased Rs. 230,000
- Direct materials of Rs. 120,000 were requisitioned alongwith indirect materials of Rs. 65,000 and Rs. 25,000 of supplies.
- Factory payroll for the month was Rs. 300,000. In preparing payroll cheques, the general office deducted Rs. 13,500 of income tax and 10% of social security contribution. The Sheikhpura payroll consisted of Rs. 30,000-office salaries, Rs. 80,000-sales salaries, Rs. 60,000-indirect labour and Rs. 130,000-direct labour.
- Factory overhead is applied at a rate of 150% of direct labour cost.
- Materials costing Rs. 2,750 were found to be defective and were returned to the supplier.
- Payment made to vendors Rs. 215,000.
- Factory overhead expenses in the sum of Rs. 120,000 were recorded including depreciation of Rs. 20,000 on factory machinery.
- Goods completed Rs. 483,000.
- Goods costing Rs. 450,000 were sold for Rs. 600,000.

Required :

- Pass Journal entries and setup ledger accounts in the books of factory to record above transactions. 12
- Prepare factory Trial Balance as on May 31, 2004. 3

THE END