

INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN



Spring (Summer) 2009 Examinations

Saturday, the 23rd May 2009

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

Stage – 2

Time Allowed – 2 Hours 45 Minutes

Maximum Marks – 90

- (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 on 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.

Marks

- Q. 2** (a) Define a costing system. What benefits does a costing system provide to management? 08
- (b) Based on budgeted production level of 90,000 units for the year ending 31st December 2008, XYZ Manufacturing Company worked out the following estimated unit costs for their product Chicoo, while fixing a selling price of Rs.400 per unit:

Particulars	Rs. per unit
Direct material cost	105
Direct labour cost	80
Factory overhead:	
Fixed	50
Variable	20
Selling & administrative expenses:	
Fixed	40
Variable	60
Total	355

The company during the year could actually manufacture 60,000 units of “Chicoo”. The entire production was, however, sold at the price of Rs.400 per unit. There was no inventory of any kind at the beginning or end of the year.

Required:

Work out the following:

- (i) Actual conversion cost per unit during 2008. 03
- (ii) Cost of goods sold statement in total and per unit for the year ended December 31, 2008. 05
- (iii) Income statement for the year ended December 31, 2008. 04

- Q. 3 (a)** The Five Star Company shows the following data in respect of material 'A' for the month of April 2009:

Date	Particular	Units	Rs. per unit
April 01	Opening balance	266	4.50
07	Purchased	798	5.00
10	Issued	135	–
12	Issued	400	–
15	Purchased	930	5.60
18	Issued	330	–
20	Purchased	100	7.00
27	Issued	530	–

Required:

Prepare the perpetual inventory card for material 'A' for the month of April 2009 on the basis of FIFO and weighted average method of costing of material.

12

- (b)** From the records of Universal Printing Company, it is found that the average requirement of 20 x 30, 75 grams art paper is 125 reams per day. The maximum monthly requirement of the paper does not exceed 5,000 reams and the minimum requirement during any month does not fall below 2500 reams. The time required to get delivery from the suppliers is usually 15 days. Economic order quantity is 3,000 reams.

Required:

Compute the minimum and maximum limits of inventory (reams) and also the re-order level.

10

- Q. 4 (a)** Explain the following methods of remunerating the labour:

- (i) Day rate system 02
- (ii) Piece work method 02
- (iii) Taylor differential piece rate system 02

- (b)** The time and motion study carried out in Sun Engineering Company shows that standard production of a certain item is 50 units per hour. During the last week of March 2009, a worker's record showed the following productive data for each 8-hour day work:

Days	No. of units
Monday	350
Tuesday	375
Wednesday	400
Thursday	factory closed
Friday	450
Saturday	500

Required:

Prepare a schedule showing the worker's daily earnings, the effective hourly rate and the labour cost per unit if the company used piece work system with wage as Rs.1.75 per unit and the piece work with Taylor differential system with the following rates:

For standard production and above, Rs.2.00 per unit and for below standard, Rs.1.50 per unit.

10

Q. 5 Gosh Manufacturing Company has three production departments P, Q and R. Departmental estimates for the year 2009 are as under:

Departments	P		Q		R	
Factory overheads	Rs.	100,000	Rs.	150,000	Rs.	400,000
Direct labour cost	Rs.	100,000	Rs.	25,000	Rs.	200,000
Direct labour hours		20,000		10,000		20,000

Job No.309 was completed during January 2009 with the following cost and other data:

Departments	P		Q		R	
Direct material	Rs.	10,000	Rs.	5,000	Rs.	1,000
Direct labour cost	Rs.	5,000	Rs.	250	Rs.	5,000
Direct labour hours		1,000		100		500

Required:

- (a) Compute single overhead rates on direct labour cost and direct labour hours bases. 02
- (b) Compute separate overhead rates for each department (P, Q & R) on the bases of direct labour cost and direct labour hour. 06
- (c) Compute cost of Job No.309, applying overheads based on direct labour hours using:
 - (i) Single (plant-wide) rate 02
 - (ii) Separate rates for each department (P, Q & R) 03

- Q. 6**
- (a) What are the objectives of process costing? Discuss. 04
 - (b) Prepare a specimen standard cost card putting imaginary figures and furnish your comments. 07
 - (c) ABC Limited produces a product with the following cost at the current output of 30,000 units at selling price of Rs.24 per unit:

Particulars	Rs.
Production cost (variable)	12.00 per unit
Selling cost (variable)	4.00 per unit
Fixed cost	90,000 per annum

The company is of the view that by hiring an improved machine for production, the variable cost of production would decrease to Rs.10 per unit. The hiring cost of the machine would be Rs.50,000.

Required:

- Calculate the following:
- (i) Breakeven point in units and rupees before and after hiring of new machine. 04
 - (ii) The number of units that must be sold to achieve the same profit as is currently earned, if the new machine is hired. 04

THE END