

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



**Spring (Summer) 2009 Examinations**

Wednesday, the 20th May 2009

**STRATEGIC MANAGEMENT ACCOUNTING**

Professional – III

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.

	<b>Marks</b>
<b>Q. 2</b> Saleem Hair Dresser has five barbers (Saleem is not one of them). Each barber is paid Rs.99.00 per hour and works 40-hour a week and a 50-week year, regardless of the number of haircuts. Rent and other fixed expenses are Rs.17,500 per month. The price is charged @ Rs.120 per haircut.	
<b>Required:</b>	
(a) Find the contribution margin per haircut. Assume that the barbers' compensation is fixed cost.	02
(b) Determine the annual break-even point (in number of haircuts).	03
(c) What will be the operating income if 20,000 haircuts are made?	02
(d) Suppose Saleem revises the compensation method. The barbers will receive Rs.40 per hour plus Rs.60 for each haircut. What is the new contribution margin per haircut? What is the annual break-even point (in number of haircuts)?	04
(e) Ignore requirements (c) & (d) above and assume that the barbers cease to be paid by the hours but receive Rs.70 for each haircut. What is the new contribution margin per haircut and the annual break-even point (in number of haircuts)?	04
(f) Refer to requirement (e) above what would be the operating income if 20,000 haircuts are performed?	06
(g) Compare your answer with the answer of requirement (c) above.	04

PTO

- Q. 3 (a)** Distinguish between Activity Based Costs (ABC) and Activity Based Management (ABM). 10
- (b)** X Manufacturing Company has two departments, machining and finishing. For a given period, the following cost were incurred by the company as a whole:

	Rs.
Direct material	1,300,000
Direct labour	750,000
Indirect manufacturing expenses	800,000
<b>Total costs</b>	<b>2,850,000</b>

The machining department incurred 70% of the direct material cost and  $33\frac{1}{3}\%$  of the direct labour cost. Indirect manufacturing expenses incurred by each department were allocated to products in proportion to the direct labour cost of products within the department. The proportion of direct material and direct labour in the products was as under:

Product	Direct Material	Direct Labour
A	40%	30%
B	30%	30%
C	30%	40%
Total for machining department	100%	100%
A	33 $\frac{1}{3}\%$	40%
B	33 $\frac{1}{3}\%$	40%
C	33 $\frac{1}{3}\%$	20%
Total added by finishing department	100%	100%

The indirect manufacturing cost incurred by the machining department and allocated to all the products therein amounted to machining Rs.380,000 and finishing Rs.420,000.

**Required:**

- (i) Compute the total cost incurred by the machining department and added by the finishing department. 05
- (ii) Compute the total cost of each product that would be shown as finished goods inventory if all the products were transferred to finished stock on completion (there were no beginning inventories). 10

- Q. 4** From the following data prepare a cash budget showing expected cash receipts and disbursements for the month of July 2009 and the cash balance expected as of July 31, 2009: 20

- (i) Bank note due on July 10 : Rs.900,000 plus Rs.45,000 interest
- (ii) Depreciation for the month of July : Rs.21,000
- (iii) Two year insurance policy due on July 14 for renewal : Rs.15,000 to be paid in cash
- (iv) Expected cash balance June 30, 2009 : Rs.800,000
- (v) Goods purchases for July : Rs.4,500,000, 40% paid in the month of purchase, 60% paid in next month.
- (vi) Receivable from customers as at June 30 : Rs.600,000 from May sales, Rs.4,500,000 from June sales
- (vii) Payroll due in July : Rs.900,000
- (viii) Other expenses for July, payable in July : Rs.450,000
- (ix) Accrued taxes for July, payable in September : Rs.75,000
- (x) Sales for July : Rs.10,000,000, half collected in the month of sale, 40% in the next month, 10% in the third month.
- (xi) Accounts payable June 30, 2009 : Rs.4,600,000

**Q. 5** The United Company manufactures one product. The results of its operations for the last year are summarized below:

	Rs.	Rs.
Sales		200,000,000
Less: cost of goods sold:		
fixed cost	25,000,000	
variable cost	140,000,000	165,000,000
Gross Profit		35,000,000
Commercial expenses:		
fixed expense	6,600,000	
variable expense	20,000,000	26,600,000
Income before income tax		8,400,000
Income tax		4,200,000
Net Income after tax		4,200,000

The company is considering purchase of equipment to replace an existing manual operation. It is estimated that new equipment will save Rs.190,000 in labour and other costs. The new equipment is estimated to have an installed cost of Rs.1,000,000 and economic life of 10 years with no salvage value at the end of its life. Depreciation is computed on straight-line basis. Assume that the company expects to pay an income tax of 50%.

**Required:**

Calculate the following:

- (i) Payback period. 04
- (ii) Average annual return on original investment. 01
- (iii) Average annual return on average investment. 02
- (iv) Net present value, assuming that the company wishes to earn 10% on its investment, after tax. 03
- (v) Present value payback period. 05
- (vi) Net present value index. 01
- (vii) Discounted cash flow rate of return. 04

Present Value Factor						
Year	7%	8%	9%	10%	11%	12%
1	0.935	0.926	0.917	0.909	0.901	0.893
2	0.873	0.857	0.842	0.826	0.812	0.797
3	0.816	0.794	0.772	0.751	0.731	0.712
4	0.763	0.735	0.708	0.683	0.659	0.636
5	0.713	0.681	0.650	0.621	0.593	0.567
6	0.666	0.630	0.596	0.564	0.535	0.507
7	0.623	0.583	0.547	0.513	0.482	0.452
8	0.582	0.540	0.502	0.467	0.434	0.404
9	0.544	0.500	0.460	0.424	0.391	0.361
10	0.508	0.463	0.422	0.386	0.352	0.322
11	0.475	0.429	0.388	0.350	0.317	0.287
12	0.444	0.397	0.356	0.319	0.286	0.257
13	0.415	0.368	0.326	0.290	0.258	0.229
14	0.388	0.340	0.299	0.263	0.232	0.205
15	0.362	0.315	0.275	0.239	0.209	0.183

Cumulative Present Value Factor						
Year	7%	8%	9%	10%	11%	12%
1	0.935	0.926	0.917	0.909	0.901	0.893
2	1.808	1.783	1.759	1.736	1.713	1.690
3	2.624	2.577	2.531	2.487	2.444	2.402
4	3.387	3.312	3.240	3.170	3.102	3.037
5	4.100	3.993	3.890	3.791	3.696	3.605
6	4.767	4.623	4.486	4.355	4.231	4.111
7	5.389	5.206	5.033	4.868	4.712	4.564
8	5.971	5.747	5.535	5.335	5.146	4.968
9	6.515	6.247	5.995	5.759	5.537	5.328
10	7.024	6.710	6.418	6.145	5.889	5.650
11	7.499	7.139	6.805	6.495	6.207	5.938
12	7.943	7.536	7.161	6.814	6.492	6.194
13	8.358	7.904	7.487	7.103	6.750	6.424
14	8.745	8.244	7.786	7.367	6.982	6.628
15	9.108	8.559	8.061	7.606	7.191	6.811

**THE END**