INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

Spring (Summer) 2010 Examinations

Monday, the 17th May 2010

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

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 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.

Marks

Q. 2 **(i)** In what situations ABC (Activity Based Costing) is appropriate and beneficial? 02

(ii) Following are the data of a company generating own power for its two activities. It calculates activity cost rates based on cost driver capacity:

Activity	Capacity	Cost Driver	Cost in Rupees
Power	50,000 Kwh	Kilowatt hours	200,000
Quality Inspections	10,000 Nos.	No. of inspections	300,000

Following information are available for a particular period for three products of the company:

Product	No. of quality inspections	Kwh consumed
A	3,500	10,000
B	2,500	20,000
C	3,000	15,000

Required:

(a) Calculate the following for each activity:

(i) Cost driver rates 02

(ii) Cost allocated to each product 03

(iii) Cost of unused capacity 03

(b) List at least six factors that management should consider in choosing a capacity level to compute the budgeted fixed overhead rate. 03

Q. 3 A company produces two joint products 'A' and 'B' from the same basic materials. The processing is completed in three departments. Materials are mixed and processed in Department-1. At the end of this process, 'A' and 'B' get separated. After separation 'A' is completed in Department-2 and 'B' is finished in Department-3.

During a particular period 200,000 Kgs of raw material were processed in Department-1, at a total cost of Rs.875,000 and the resultant 60% becomes 'A' and 30% 'B' and 10% normally lost in processing.

'A' is further processed in Department-2 at a cost of Rs.180,000 where 1/6 of the quantity received from Department-1 is lost in processing.

In Department-3 further new material added to the material received from Department-1 and weight mixture is doubled, there is no quantity loss in the department and further processing and material cost is Rs.150,000.

PTO

Marks

Following are the details:

	Product A	Product B
Quantity sold (Kgs.)	90,000	115,000
Sales price per Kg (Rs.)	10	4

There were no beginning inventories. If these products are sold at split-off-point, the selling price of 'A' and 'B' would be Rs.8 and Rs.4 per Kg respectively.

Required:

(a) Prepare statements showing:

(i) Apportionment of joint cost to product 'A' and 'B' in proportion of sales value at split-off point. 04

(ii) Cost per kg of each product indicating joint cost, processing cost and total cost separately. 03

(iii) Product-wise profit for the period. 06

(b) Offer your comments to increase the profitability. 04

Q. 4 The information of ABC Company for the month of April, 2010 are summarized below relating to the performance of one of its products :

	(Rs.)
Budgeted profit	34,000
Sales volume variance (UF)	6,800
Standard profit on actual sales	27,200
Selling price variance (UF)	32,000

The budgeted data and cost variances for the same month are as under:

Budgeted Information	Rs.	Cost variances	Favour-able Rs.	Unfavour-able Rs.
Sales (1500 units)	160,000	Material price variance	8,000	
Material cost (purchases and consumption 750 Kgs.)	36,000	Material usage variance		1,200
Labour cost (1,125 Hours)	36,000	Labour rate variance		1,600
Variable overhead cost	18,000	Labour efficiency variance		1,200
Fixed overhead cost	36,000	Variable OH expenditure variance		4,800
		Variable OH efficiency variance		600
Budgeted production volume	1,500 units	Fixed OH efficiency variance	20,000	
		Fixed OH volume variance	1,200	

Additional information:

- Inventories of material and finished goods are valued at standard cost.
- Production during the month was 1,550 units.
- Sales for the month of April were Rs.96,000.
- Material purchased during the month was 1,000 Kgs.

Required:

(a) What does fixed overhead volume variance indicate? 02

(b) Calculate actual figures of the following:

(i) Sales volume 03

(ii) Quantity of material consumed 03

(iii) Material cost 02

(iv) Labour hours 04

(v) Labour cost 02

(vi) Variable overhead cost 03

(vii) Fixed overhead cost 02

Marks

Q. 5 A Management Accountant collected following information from the budget and cost accounting record of XY & Z Enterprises for the quarter ended March 31, 2010:

	Master Budget			Actual		
	Product A	Product B	Total	Product A	Product B	Total
Sales in units	40,000	50,000	90,000	37,500	58,000	95,500
						Rs. in million
Sales	30	25	55	26.250	26.100	52.350
Variables Costs:						
Factory overhead	12	10	22	13.125	8.700	21.825
Administrative overhead	4	3	7	3.750	4.350	8.100

Budgeted/ actual fixed factory overheads are Rs.7 million and administrative overheads are Rs.4 million. The management requires to discuss the results and comparison in Management Committee Meeting.

Required:

(a) Prepare the following:

(i) Flexible budgeted income statement based on actual sales units for each product and total for the company. 06

(ii) Income statement under marginal costing showing variances in following columns for the company as a whole: 10

Master Budget	Flexible Budget	Actual	Volume and Mix Variances	Price and Overhead variances

(b) Calculate the following variances:

(i) Sales price variance for each product. 04

(ii) Sales volume and sales mix variance for the company. 04

Q. 6 Chief Accountant of a firm has prepared the following report that breaks down the firm's overall result of last month into two main business divisions:

	Consultancy	Corporate & Taxation	Total
			Rs. (000)
Revenue from clients	12,000	18,000	30,000
Variable cost	3,000	3,600	6,600
Contribution margin	9,000	14,400	23,400
Traceable fixed cost	8,400	11,700	20,100
Divisional margin	600	2,700	3,300
Common fixed cost	720	1,080	1,800
Net operating income/ (Loss)	(120)	1,620	1,500

The firm decided to boost the revenue of consultancy division by advertising and promotional campaign through additional cost of Rs.600,000 and it would increase consultancy revenues by Rs.3 million. This increase would not require any additional fixed cost.

Average operating assets of the firm would remain the same at Rs.9 million. The firm requires minimum 15% rate of return on average operating assets.

Required:

(a) Prepare a statement showing correct divisional margin before allocating common fixed costs and firm's overall net operating income after allocating common fixed costs. 04

(b) Would it be financially better off if the consultancy division is dropped before the start of campaign? Comment briefly on the decision. 03

(c) Calculate the impact of the campaign on the firm's overall net operating income. 04

(d) Calculate the residual income of the firm before and after campaign. 04

THE END