ICMA Pakistan

SPRING 2013 EXAMINATIONS
Tuesday, the 27th August 2013

COST ACCOUNTING – (AF-201)

SEMESTER-2

Time Allowed: 02 Hours 45 Minutes **Maximum Marks: 90** **Roll No.:**

(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.
(viii) **Question Paper must be returned to invigilator before leaving the examination hall.**

Marks

Q. 2 **(a)** SIK Limited is a renowned textile company, established in 1979. Due to the high competition in the industry, the management of the company is willing to analyse that where it stands in the industry. The management has gathered the data of two other renowned companies in same industry and provided you to compare their performance.

Companies in Same Industry

Rupees

	SIK	IGG	BNI
Revenues	4,000,000	2,000,000	**–?–**
Income	400,000	200,000	**–?–**
Investment	2,000,000	**–?–**	20,000,000
Income as % of revenue	**–?–**	**–?–**	0.5%
Investment turnover	**–?–**	**–?–**	2
Return on investment	**–?–**	1%	**–?–**

Required:

As a Management Accountant of the company, calculate the missing figures and on the basis of that, comment on the relative performance of these companies. **09**

(b) M/s. Cure Pharma is a multinational pharmaceutical company. It manufactures various products. The total cost of one of its products "X" for two different activity levels are as follows:

Production Volume (Units)	Total Cost (Rs.)
2,000	30,000
8,000	60,000

Required:

Using high and low point method calculate the following:

(i) Variable cost per unit. **02**

(ii) Amount of fixed cost. **02**

(iii) Cost function. **02**

(iv) Total cost of producing 15,000 units. **02**

Marks

Q. 3 (a) The following information relates to overhead of ABC Company for the month of July, 2013:

	Rupees
Actual factory overhead cost incurred	3,200,000
Application factory overhead	3,000,000

Required:

Give journal entries to record the following:

(i) Actual factory overhead. **01**

(ii) Applied factory overhead. **01**

(iii) Over or under- absorbed factory overhead. **01**

(iv) Closure of over or under-absorbed factory overhead to cost of goods sold. **01**

(b) M/s. World is a manufacturing company. The company uses material "Y" in the manufacturing of one of its products 'Alpha'. The company has provided you the following data to assist in controlling stock of a material 'Y'.

Working days per year	280	days
Normal use per day	1000	units
Maximum use per day	1200	units
Minimum use per day	800	units
Lead time	3	days
Variable cost of placing one order	Rs.50	
Variable carrying cost per unit per year	Rs.2	

Required:

From the above information, calculate the following:

(i) Economic order quantity. **02**

(ii) Safety stock. **02**

(iii) Order point. **02**

(iv) Normal maximum inventory. **02**

(v) Average inventory, assuming normal lead time and usage. **02**

(c) Define the following terms:

(i) Blanket overhead rate. **02**

(ii) Residual income. **02**

Q. 4 (a) Maqsood Chemical Company produced 1,200,000 gallons of three joint products during the month of June, 2013 Chemical 1, Chemical 2 and Chemical 3. These three chemicals are produced in the ratio of 5:4:3 respectively. The joint product cost up to the split off point at which Chemical-1, Chemical-2 and Chemical-3 become separable products is Rs. 30,000,000. The company uses a process cost system to accumulate production cost. Further data relating to three Chemicals are as follows:

Rupees

	Chemical-1	Chemical-2	Chemical-3
Sales value at split off per gallon	40	30	40
Further processing cost	1,500,000	1,000,000	500,000
Sales price per gallon after completion	50	35	30

Required:

Allocate joint cost to each product using the following method:

(i) Market value at split off point. **04**

(ii) Net-realizable value method. **04**

Marks

(b) Suppose you have been working as Management Accountant of Maqsood Chemical Company and the management is seeking your advice in respect of the following matters:

(i) In addition to the three main chemicals mentioned in (a) above, the company has one more by-product "Beta" which is used by some other small companies for manufacturing of their main product. What would be the accounting treatment of the sale of by-product, if joint production cost is not allocated to the by-product? **04**

(ii) The management of Maqsood Chemical Company is also worried that over the last year more labours have left the company as compared with previous years. Explain the possible reasons for the high rate of labour turnover and illustrate the costs involved as opposed to the benefits of stable workforce. **05**

Q. 5 **(a)** Mr. Shaikhan is a transporter. Recently he has extended his transport business in various areas of city. Due to receiving many contracts from universities, colleges, schools and offices for providing transport, he needs to calculate tender price and profit. He has appointed you as an Accountant and presented the following information to you for the coming year:

	35 Seat Coaches
Number of coaches	20
Number of drivers	20
Weekly wage costs per driver	Rs.1,500
Cost of each coach	Rs. 900,000
Fuel consumption - miles per gallon	16
Insurance per coach	Rs.2,500
Repair and maintenance per mile	Rs. 25
Administration expense per coach	Rs.1,750

You are told that each 35 seater coach is kept for 13 years and at that time it will have a resale value of Rs.250,000. It is the policy of the company to depreciate the coaches on a straight-line-basis.

It is envisaged that each 35 seater coach will travel 650 miles per week. The cost of fuel is budgeted at Rs.210 per gallon. It is budgeted that each coach will be in operation 40 weeks per year and the drivers will be paid for 42 weeks.

Required:

Calculate the following:

(i) Number of miles travelled - per coach and all coaches. **02**

(ii) Gallons of fuel consumed - per coach and all coaches. **02**

(iii) Total operating cost- per coach and all coaches. **08**

(iv) Operating cost per passenger mile for each 35 seater coach. (Round off up to 4 digits) **02**

(v) Depreciation per coach. **02**

(b) Mr. Shaikhan has been asked to tender for a contract to provide transport for a university for 50 weeks in the coming year. The contract would involve five (5) of the coaches carrying 30 students 12 miles a day, 5 days a week.

Required:

(i) Calculate total cost of the contract. **03**

(ii) Calculate contract price on the basis of the costing you have prepared in (a) and (b) above, given that the company requires a profit of 30% on contract price. **02**

Marks

Q. 6 (a) M/s. Zahid industries manufactures a single product the 'PK', The standard prime cost for this product is as under:

		Rupees
Direct material	8 kg x Rs. 10	80
Direct labour	4 hours x Rs. 50	200
		280

M/s. Zahid Industries reported the following variances for Quarter 3 in relation to the product 'PK':

		Rupees
Direct material price variance	20,000	unfavourable
Direct material usage variance	40,000	unfavourable
Direct labour rate variance	20,000	unfavourable
Direct labour efficiency variance	40,000	favourable

Actual direct labour cost was Rs.180,000 and direct material purchase price is Rs. 11 per kg. The entire product is sold as soon as it is produced. There was no opening or closing inventories of the material.

Required:

Calculate the following:

(i) Actual output **04**

(ii) Actual hours worked **04**

(iii) Average actual wage rate per hour **01**

(iv) Actual number of kilograms purchased and used **02**

(b) What can be the possible reasons for the following?

(i) Favourable material price variance **03**

(ii) Unfavourable material price variance **03**

THE END