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Serial No.....

Society of Certified Management Accountants of Sri Lanka

Technician Stage March 2007 Examination

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Examination Time: 9.30a.m.-12.30p.m.

Number of Questions: 05

Instructions to candidate

1. Time allowed is **three (3) hours**.
2. Answer **all** questions.
3. The answers should be given in the English Language.

<u>Subject</u>	<u>Subject Code</u>
Management Accounting Fundamentals	(MAF)

Question No: 1 (20 Marks)

1. Cost Accounting is different from Management Accounting as it;
 - (a) Provides information only to external user groups of an organization
 - (b) Provides only cost information for external reporting and internal profit measurement.
 - (c) Provides cost information only for external reporting.
 - (d) Is a branch of financial accounting
2. **Not** a difference between 'cost & management accounting' and 'financial accounting' is;
 - (a) Legal requirement
 - (b) Generally accepted accounting principles
 - (c) Time dimension
 - (d) Used for decision making
3. **Not** a function of management accounting is;
 - (a) Allocate costs between costs of goods sold and inventories for internal and external profit reporting.
 - (b) Provide relevant information to help managers make better decisions.
 - (c) Provide information for planning, control and performance measurement.
 - (d) Provide information for investment decision making for current and potential investors
4. The main objectives of cost classification is;
 - (a) To study the behaviour of costs
 - (b) To control costs
 - (c) To understand the various cost concepts
 - (d) To provide cost information for decision making and control
5. Suitable cost classification for both decision making and cost control is;
 - (a) Fixed and variable
 - (b) Relevant and irrelevant
 - (c) Period and product
 - (d) Direct and indirect

6. Select the correct statement;
- Fixed costs are constant at any level of activity
 - Fixed costs are constant at the current operating level
 - Fixed costs are constant in long run only
 - Fixed costs are constant at any level of activity within the existing capacity
7. If overhead cost is incurred specifically for a cost center, the distribution of that cost is termed as;
- Overhead absorption
 - Overhead apportionment
 - Overhead allocation
 - Overhead analysis
8. A cost unit is;
- The cost per hour of operating a machine
 - The cost per unit of electricity consumed
 - A unit of product or service in relation to which costs are ascertained
 - A measure of work done in a standard hour.
9. Depreciation on plant and machinery is;
- Not a cash cost and so it is ignored in the cost accounts
 - Part of manufacturing overheads
 - Part of prime cost
 - Always calculated using the straight - line method
10. In a job cost system, costs are accumulated;
- for specific job
 - by kind of material used
 - by department or process
 - on a monthly basis
11. Job costing could be used in;
- Repair shops
 - Printing shops
 - Furniture making
 - All of these
12. At the end of a period, in an integrated accounting system, the double entry for overhead under-absorption would be;
- WIP Control A/C Debit Overhead Control A/C Credit
 - P/L A/C Debit WIP Control A/C Credit
 - P/L A/C Debit Overhead Control A/C Credit
 - Overhead Control A/C Debit P/L A/C Credit
13. In the job costing, direct material returns to stores that were previously issued to a particular job, would be recorded as;
- Material Control Debit Factory Overhead Credit
 - Material Control Debit WIP Credit
 - Purchase Return Debit WIP Credit
 - WIP Debit Material Control Credit

14. In the job costing system, the amount transferred from WIP account to finished goods account would be the cost of all jobs;
- (a) Started in process during the period.
 - (b) Started in process during past period and current period.
 - (c) Completed and sold during the period.
 - (d) Completed during the period.
15. A Ltd, has fixed costs of Rs.60,000/- per annum. It manufactures a single product, which it sells for Rs.20.00 per unit. Its contribution margin ratio is 40%. A Ltd's break-even point is;
- (a) 1,200
 - (b) 5,000
 - (c) 3,000
 - (d) 7,500
16. Which is **not** a Manufacturing Cost?
- (a) Direct Material
 - (b) Direct Labor
 - (c) Manufacturing Overheads
 - (d) Selling cost
17. Z Ltd, makes a single product which it sells for Rs.16.00 per unit. Fixed costs are Rs.78,000 per month and the product has a contribution to sales ratio of 40%. In a period when the budgeted sales were Rs.224,000, Z Ltd., margin of safety, was;
- (a) Rs.35,000
 - (b) Rs.27,000
 - (c) Rs.28,500
 - (d) Rs.29,000
18. The chief accounting officer in a commercial bank typically;
- (a) Line authority only
 - (b) A staff role only
 - (c) Both line and staff role
 - (d) Non of the above
19. A company can sell its products for Rs.18 each. The variable cost for each product is Rs.12 per unit. Fixed costs in total amount to Rs.24, 000. Sales volume required to make a profit of Rs.30,000 is;
- (a) 4000 units
 - (b) 9000 units
 - (c) 8000 units
 - (d) 5000 units
20. Select the value added time from the following;
- (a) Move Time
 - (b) Processing Time
 - (c) Storage Time
 - (d) Inspection Time

(Total 20 Marks)

Question No: 2 (20 Marks)

Torana Sound Company manufactures and sells compact disks. The Price and cost data are as follows:

Selling price per unit (package of 2 CD's) (Rs.)		500
Variable cost per unit: (Rs.)		
Direct Material	200	
Direct Labour	100	
Manufacturing Overheads	80	
Selling Expenses	30	
Total variable costs per unit (Rs.)		410
Annual fixed cost: (Rs.)		
Manufacturing Overheads	993,000	
Selling and Administration expenses	807,000	
Total annual fixed costs (Rs.)		1,800,000
Forecasted annual sales volume (100,000 packs) (Rs.)		50,000,000

In the following requirements, ignore income taxes.

You are required to:

1. What is Torana's Break Even Point in units? **(2 Marks)**
2. What is Torana's Break Even point in sales in Rs? **(2 Marks)**
3. How many units would Torana Sound have to sell in order to earn Rs.260,000 profits? **(3 Marks)**
4. What is Torana's margin of safety? **(3 Marks)**
5. Management estimates that direct labour costs will increase by 8% next year. How many units will Torana have to sell next year to reach its break-even point? **(4 Marks)**
6. If Torana's direct labour costs increase by 8%, what selling price per unit of product must it charge, to maintain the same contribution margin ratio? **(6 Marks)**

(Total 20 Marks)

Question No: 3 (20 Marks)

Merit manufacturing company began operations at the beginning of the current year. One of Merit's product's, a refrigeration element, sells for Rs. 185 per unit. Information related to the current year's activities are as follows:

Variable costs per unit: (Rs.)	
Direct Materials	20
Direct Labour	37
Manufacturing Overheads	48
Annual fixed costs: (Rs.)	
Manufacturing Overheads	600,000
Selling and Administration costs	860,000
Production and sales activities: (Units)	
Production	24,000
Sales	20,000

Merit carries its inventory at the average unit cost of production and is subject to a 30% income tax rate. There was no work in progress at year-end.

You are required to:

1. Determine the cost of finished goods inventory, for the current year ended 31 December. **(4 Marks)**
2. Compute Merit's net income for the current year ended 31 December. **(8 Marks)**
3. If next year's Production decreases to 23,000 units and general cost behaviour patterns do not change, what is the likely effect on:
 - i) The direct labour cost of Rs. 37 per unit? Explain why? **(3 Marks)**
 - ii) The fixed manufacturing overhead cost of Rs. 600,000? Explain why? **(3 Marks)**
 - iii) The fixed selling and administrative cost of Rs. 860,000? Explain why? **(2 Marks)**

(Total 20 Marks)

Question No: 4 (20 Marks)

ABC Ltd has two production departments with the following characteristics.

	Production Department A	Production Department B
Production in units	10,000	10,000
Direct Labour hours per month	10,000	10,000
Machine hours per month	-	10,000
Machinery Depreciation per month (Rs.)	-	50,000
Building Cost per month (Rs.)	1,000	29,000
Power Cost per month (Rs.)	100	5,900

Some of ABC's products are produced exclusively in department A; while others require activity only in department B.

The following costs are budgeted for the month and are the basis for computing the predetermined overhead rate.

	Rs.
Depreciation of Machinery	50,000
Building Costs	30,000
Power Costs	<u>5,100</u>
Total Costs	<u>85,100</u>

You are required to:

1. Compute a single predetermined overhead rate for ABC, based on direct labour hours. **(3 Marks)**
 2. Suppose product I require one direct labour hour in department A and product II requires two direct labour hours in department B, how much of overhead will each product be assigned, assuming ABC uses a single predetermined overhead rate? **(3 Marks)**
 3. Compute an overhead rate for each production department, based on two different cost drivers; namely, direct labour hours in department A and machine hours in department B. **(5 Marks)**
 4. Based on the rate computed in requirement 3, how much of overhead will be assigned to Product I and Product II? Each unit of Product II requires one machine hour in department B. **(5 Marks)**
 5. Suppose ABC implements the departmental overhead rates computed in requirement 3. Has the company gone as far as it can go in terms of improving its product costing system? If not, what do you recommend? Explain why? **(4 Marks)**
- (Total 20 Marks)**

Question No: 5 (20 Marks)

For profit determination and stock valuation purposes, it is conventional to apportion common costs incurred prior to split off between joint products.

A process produces three joint products X, Y and Z, and the following data applies:

	Sales (Rs.)
X 400 Kilos @ Rs. 12.50	5,000
Y 300 Kilos @ Rs. 20.00	6,000
Z 200 Kilos @ Rs. 25.00	<u>5,000</u>
Total	<u>16,000</u>

Total joint costs amount to Rs. 11,000

You are required to:

1. Prepare statements to show gross profit per product on:
 - a. a physical unit's basis **(5 Marks)**
 - b. a sales value basis **(5 Marks)**
 2. Calculate gross profit percentages for each method given in 1, commenting briefly on their meaning. **(4 Marks)**
 3. Distinguish between joint products and by-products. **(4 Marks)**
 4. State how you would deal with by-products in a costing system. **(2 Marks)**
- (Total 20 Marks)**

