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Serial No.....

## Society of Certified Management Accountants of Sri Lanka

### Technician Stage March 2008 Examination

**Examination Date :** 8<sup>th</sup> March 2008

**Number of Pages :** 06

**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)

Select the most correct answer to each question. Write the number of the selected answer in your answer booklet with the English letter. **E.g. (1) a, (2) b etc...**

- (1) Which of the following is the difference between normal loss and abnormal loss, with respect to the process account?
  - (a) Normal loss can be controlled but abnormal loss cannot be controlled
  - (b) Normal loss is not inherent to the process but abnormal loss is inherent to the process
  - (c) Normal loss is born by good items but abnormal loss is charged to the relevant process account.
  - (d) Normal loss is born by good items but abnormal loss is charged to the profit and loss account
- (2) Select the correct journal entry from the following, for recording the scrapped value of normal loss which is realized in cash.
  - (a) Debit Cash Book Credit Normal Loss Account
  - (b) Debit Cash Book Credit Profit and Loss Account
  - (c) Debit Cash Book. Credit Abnormal Loss Account
  - (d) Debit Cash Book Credit The relevant process Account
- (3) The main cost items which are debited to the Process Account are,
  - (a) Actual direct material cost, actual direct labour cost and absorbed overhead cost
  - (b) Estimated direct material cost, estimated direct labour cost and estimated overhead cost.
  - (c) Estimated direct material cost, estimated direct labour cost and actual overhead cost.
  - (d) Actual direct material cost, actual direct labour cost and actual overhead cost

#### **Use the following information to answer the question 4, 5, 6 and 7.**

The number of units introduced to a process is 4,000.

Normal loss is 10% of the input.

Both normal and abnormal losses are scrapped and each unit can be realized at Rs.4.

Direct material cost is Rs.10,800. Direct labour cost is Rs.19,600.

Overhead absorption rate is Rs.5 per machine hour.

Actual machine hours are 2,880.

Budgeted machine hours are 3,000.

Actual output is 3,500.

- (4) The total process loss is:
- (a) 400 units
  - (b) 100 units
  - (c) 500 units
  - (d) 350 units
- (5) The cost per unit is:
- (a) Rs.12.00
  - (b) Rs.12.61
  - (c) Rs.10.80
  - (d) Rs.11.20
- (6) The abnormal loss is:
- (a) Rs.800.00
  - (b) Rs.1,080.00
  - (c) Rs.1,200.00
  - (d) Rs.1,120.00
- (7) The total cost to be transferred to the next process is:
- (a) Rs.39,200.00
  - (b) Rs.37,800.00
  - (c) Rs.42,000.00
  - (d) Rs.44,135.00

**Following information is relevant for questions 8, 9, and 10**

Opening work-in-progress is 2,000 units

Cost of opening work-in-progress is:

Direct material cost Rs.12,500 (60% completed)

Conversion cost Rs.16,000 (50% completed)

Number of units introduced is 8,000

Conversion cost incurred during the year is Rs.101,100

Direct material cost is Rs.65,400

Losses are identified with the completion of 40% from all the elements of cost.

Normal loss is 10% of the input. Losses have no realizable value.

Number of units transferred to the next process is 6,400.

Closing work-in-progress is 2,200 units and these are completed up to 50% from all the elements of cost.

- (8) The cost per unit is,
- (a) Rs.24.42
  - (b) Rs.16.65
  - (c) Rs.25.00
  - (d) Rs.15.00
- (9) The total cost to be transferred to the next process account is,
- (a) Rs.160,000
  - (b) Rs.110,000
  - (c) Rs.161,500
  - (d) Rs.176,500
- (10) The Abnormal loss to be charged to the profit and loss account is,
- (a) Rs.4,000
  - (b) Rs.10,000
  - (c) Rs.15,000
  - (d) Rs.6,000

**(2 Marks \* 10 = Total 20 Marks)**

**Question No: 2 (20 Marks)**

A manufacturing firm which produces a single product has provided the following information relating to the year 2007.

Total capacity	100,000 units
Current operating level	80%
Manufacturing cost per unit	Rs.
Direct Material	12.00
Direct Labour	18.00
Variable overhead	10.00
Fixed Overhead	<u>20.00</u>
	<u>60.00</u>
Selling Price	Rs. 90
Fixed Non manufacturing cost	Rs.900,000

Additional fixed manufacturing cost to be incurred to increase capacity to the next capacity level which is 140,000 units is Rs.60,000.

There were no opening and closing stocks.

**You are required to:**

- (a) Prepare the income statement for the year 2007 under the marginal cost approach. **(5 Marks)**
- (b) Calculate the break even point in terms of
- (i) units
  - (ii) rupees **(2 Marks)**
- (c) The firm is considering increasing the capacity to the next level and reducing the selling price by 10%. The expected increase in sales is 30,000 units.
- (i) What would be the new break even point in terms of units and rupees? **(4 Marks)**
  - (ii) Should the company reduce the selling price? Explain your answer. **(4 Marks)**
- (d) Calculate the Margin of Safety of the company according to the original situation and new the situation. **(2 Marks)**
- (e) Calculate the sales required to earn a profit of Rs 2,000,000 under the old and new situations. **(3 Marks)**
- (Total 20 Marks)**

**Question No: 3 (20 Marks)**

The following balances were appearing in A Ltd's ledger as on 1<sup>st</sup> February 2007.

A Ltd operates an integrated accounting system.

	<b>Dr. Rs. '000</b>	<b>Cr. Rs. '000</b>
Non-current assets	1,400	
Provision for depreciation		400
Raw material stock	180	
Work –in-progress	40	
Finished good stock	60	
Share capital		1,210
Retained profits		45
Creditors – PAYE		25
	<b>1,680</b>	<b>1,680</b>

The following transactions had taken place during the month of February 2007.

	<b>Gross Rs.000</b>	<b>Payee Rs.000</b>	<b>Rs.000</b>
Direct wages	80	10	70
Indirect wages	50	5	45
Cash paid to PAYE creditors			10
<b>Cash paid for indirect expenses</b>			
Production			30
Administration			20
<b>Depreciation</b>			
Production plant and equipment			25
Administration office equipment			10
Materials purchased			220
Materials issued to production			300
Materials issued for machine maintenance			48
Transfer from work –in- progress to finished good			450
Sales on credit			460
Cost of good sold			440

Production overhead is absorbed on the basis of 200% of direct wages.

**You are required to prepare:**

- (a) Raw material stock control a/c **(3 Marks)**
  - (b) Work-in-progress control a/c **(6 Marks)**
  - (c) Finished goods control a/c **(2 Marks)**
  - (d) Production overhead control a/c **(6 Marks)**
  - (e) Write off the under applied or over applied overheads to the Cost of Goods sold Account and calculate the Gross Profit. **(3 Marks)**
- (Total 20 Marks)**

**Question No: 4 (20 Marks)**

ABC Limited manufactures handcrafted clocks. The firm uses a job order costing system and manufacturing overhead is applied on the basis of direct labor hours. Estimated manufacturing overhead for the year is Rs.240,000. The firm employs 10 master clockmakers, who constitute the direct labor force. Each of these employees is expected to work 2,000 hours during the year. The following events occurred during October.

- a The firm purchased 3,000 feet of mahogany veneer at Rs.11 per foot.
- b Twenty brass counterweights were requisitioned for production. Each weight cost Rs.23.
- c Five gallons of glue was requisition for production. The glue cost Rs.20 per gallon. Glue is treated as an indirect material.
- d Depreciation of the building clocks are manufactured, for October was Rs.8,000/-.
- e A Rs.400 utility bill was paid in cash
- f Time cards showed the following usage of labor:
  - (i) Job number G60: 12 grandfather clocks, 1,000 hours of direct labour.
  - (ii) Job number C81: 20 cuckoo clocks, 700 hours of direct labour.
  - (iii) The master clockmakers earn Rs.20 per hour.
- g The October property tax bill for Rs.910 though received has not yet paid in cash
- h The firm employs laborers who perform various tasks such as material handling and shop cleanup. Their wages for October amounted to Rs.2,500
- i Job number G60, which was started in July, was finished in October. The total cost of the job was Rs.14,400.
- j Nine of the grandfather clocks from job number G60 were sold in October for Rs.1,500 each.

**You are required to:**

- (a) Calculate the company's predetermined overhead rate for the year 2006. **(2 Marks)**
  - (b) Prepare journal entries to record the events described above. **(18 Marks)**
- (Total 20 Marks)**

**Question No: 5 (20 Marks)**

Millan Engineering Company is a manufacturing firm that uses job order costing. The company's inventory balances were as follows at the beginning and end of the year.

	<b>Beginning Balance As at 1<sup>st</sup> June 2006</b>	<b>Ending Balance As at 31<sup>st</sup> May 2007</b>
Raw Materials (Rs.)	14,000	22,000
Work in Progress	27,000	9,000
Finished Goods	62,000	77,000

The company applies overhead to jobs using a predetermined overhead rate based on machine hours. At the beginning of the year, the company estimated that it would work 33,000 machine hours and incurs Rs.231,000 in manufacturing overhead cost. The following transactions were recorded for the year.

- Raw material were purchased for Rs.315,000
- Raw materials requisitioned used in production was Rs.307,000, for direct production Rs.281,000 and the balance Rs.26,000 for indirect Production.
- The following employee costs were incurred: direct labour, Rs.377,000; indirect labour, Rs.96,000; and administration salaries, Rs.172,000
- Selling Costs was Rs.147,000
- Factory utility costs was Rs.10,000
- Depreciation for the year was Rs. 127,000, of which Rs.120,000 is related to factory operations and Rs.7,000 related to selling and administrative activities.
- Manufacturing overhead was applied to jobs based on machine hours. The actual level of activity for the year was 34,000 machine hours.
- Sales for the year totalled Rs. 1,253,000

**You are required to:**

- (a) Prepare a schedule of cost of goods manufactured for the period ended 31<sup>st</sup> May 2007. **(10 Marks)**
- (b) Was the overhead under or over applied? By how much is it? **(3 Marks)**
- (c) Prepare an income statement for the year 2007. The company closes any under or over applied overhead to cost of goods sold **(7 Marks)**

**(Total 20 Marks)**

End of Question Paper