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Serial No.....

Society of Certified Management Accountants of Sri Lanka

Intermediate Stage March 2009 Examination

Examination Date : 28th March 2009

Number of Pages : 05

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

Number of Questions: 06

Instructions to candidates:

1. Time allowed is **three (3)** hours.
2. Answer **all** questions in **Section A**, **any two (2)** questions from **Section B** and **any one (1)** question from **Section C**
3. Answers should be entirely in the **English language**.

<u>Subject</u>	<u>Subject Code</u>
Advanced Management Accounting	(AMA / 602)

Section A

Answer **all** questions

Question No: 1(40 Marks)

(1.1) X Ltd, is a Company engaged in the manufacture and sale of an item which is faced with the problem of decrease in demand, for a product produced at a branch factory. The Company is presently working at 50% capacity. The Marketing Division has carried out extensive research and based on the results of such research, predicted that the demand for the branch product will increase from September 2009. It is forecasted that the branch will have to utilize 90% of its capacity during the period 1st September 2009 to 31st March 2010. The financial year of the company is from 1st April 2009 to 31st March 2010. In the meantime, the branch management encountered another problem, the demand for increase in wages by the employees. The employees attributed reasons such as inflation and continuous rise in the cost of living to justify their claim for higher wages. The wage increase claimed was 40%.The top management of the company is not in favor of granting the wage increase to employees and is considering to close the factory for five months from 1st April 2009 to 31st August 2009.

The management has the confidence that the workers could be re-employed at a 20% increase of the wages, which is being paid currently. However, the alternative is to pay 40% wage increase and to carry out activities at 50% capacity during the five months period from 1st April 2009 to 31st August 2009 and at 90% capacity, for the period from 1st September 2009 to 31st March 2010.

The following information has been prepared for the financial year 01/04/2009 to 31/03/2010 on the assumption that the branch will not be closed down and that the wage demand will not be met.

	Rs.
Sales	81,200,000
Direct Materials	51,625,000
(Direct Labour 150,000 Hours at Rs.112/= per hour and Fixed Cost)	18,300,000
Manufacturing overheads absorption rate per direct labour hour	Rs.70/=
Fixed Manufacturing Overheads cost is ¼th of Manufacturing Overheads	
Fixed Administration Overheads	1,800,000

If the factory is closed for five months the savings will be as follows:

- (i) 30% Savings in the fixed manufacturing overheads.
- (ii) Laying off clerical staff will save Rs.400,000/-. This amount is included in the fixed administration fixed overheads.
These employees have to be re-employed at a 20% salary increase when production commences from 1st September 2009.
- (iii) Amount of compensation due to closure is Rs.900,000/-.

You are required to prepare:

- (a) Profit Statements for the two periods 5 Months and 7 Months with 40% of Salary increase on the assumptions that the factory is not closed. **(12 Marks)**
- (b) Profit Statements for the two periods 5 Months and 7 Months with 20% of Salary increase on the assumption that the factory is closed. **(08 Marks)**
- (c) What are the other factors that should be taken into account in arriving at the decisions in (a) and (b)? **(05 Marks)**

[Total for 1.1 - 25 Marks]

- (1.2) XYZ is a company engaged in manufacturing three products. The company is presently operating below its capacity. The statement given below depicts the summary of sales and costs of the three products

	Products			Total Rs. 000
	A Rs. 000	B Rs. 000	C Rs. 000	
Sales	4000	6000	9000	19000
Direct Material	(3000)	(3000)	(4000)	(10000)
Direct Labor	(700)	(1200)	(1600)	(3500)
Overheads	(700)	(600)	(800)	(1800)
	<u>4100</u>	<u>4800</u>	<u>6400</u>	<u>15300</u>
Gross Margin	(100)	1200	2600	3700
Selling Overheads	(400)	(600)	(900)	(1900)
Profit	(500)	600	1700	1800

Factory overheads have been absorbed to the products based on the pre-determined overhead absorption rate. Out of the factory overheads, 20% is variable and from the selling overheads, 10% is variable and the balance is fixed.

According to the above statement a loss has been reported in respect of product A. The Management is considering the abandonment of product A in view of the reported loss. Further, it has been estimated that if A is abandoned, the estimated fixed factory and selling overhead savings will be Rs.80,000/-.

You are required to:

- (a) Recommend whether product A should be abandoned. Explain with reasons. **(10 Marks)**
- (b) Explain whether it is profitable to produce the product A in the long run. **(05 Marks)**

[Total for 1.2 - 15 Marks]

(Total 40 Marks)

End of Section A

Section B

Answer two questions only

Question No:2 (20 Marks)

XY LTD is engaged in manufacture and sale of three products A, B and C. The selling price of the products and the costs are given below

	A	B	C
	Rs.	Rs.	Rs.
Selling Price	100	90	60
Direct – Labor	20	15	10
Direct Material	40	30	20
Variable Overheads	10	05	10

Fixed Overheads is Rs.310,000/-.

It has been estimated that the sales will be in the mix of ‘A’ 5 units, ‘B’ 3 units and ‘C’ 02 units.

You are required to calculate the following.

- (a) Break even sales values of the products. **(05 Marks)**
 - (b) Break even points in terms of number of units of products, separately. **(06 Marks)**
 - (c) If the above sales mix of A 5, B 3, C 2 units is changed to A 4 units, B 1 unit and C 2 units, what is the most profitable sales mix option. **(09 Marks)**
- (Total 20 Marks)**

Question No:3 (20 Marks)

- (a) Explain briefly planning and operational variances. **(04 Marks)**
- (b) A company has prepared a standard cost for raw materials. The requirement of raw materials per unit of product is 2Kgs and the price per Kg is Rs.50/-. The world market price of materials has increased and hence the price of material is around Rs.60/- per Kg.

During the period, total quantity of the materials used for production was 25,000Kg and the actual cost of the material used was Rs.1,550,000/-. Actual number of units produced was 10,000.

You are required to calculate the following.

- (i) Total planning variance and the operational variance. **(04 Marks)**
- (ii) Operational price variance. **(02 Marks)**
- (iii) Operational usage variance. **(02 Marks)**
- (c) A company obtained market research information in order to introduce a new product X. This product needs mixing of materials A and B in the proportion 3:1. Market research information revealed that the new product will increase the company’s earning potential. In view of the market research information the company introduced product X.

The standard cost of materials per unit and the actual results are given below.

Material	Kg	Standard price Per Kg (in Rs.)	Std cost of materials per unit (in Rs.)
A	3	15	45
B	1	25	25
	4		70

Actual

Units produced - 20,000

Material input for production

A 59,500 kg

B 19,500 kg

You are required to calculate the following.

- (i) Material usage variance. (03 Marks)
- (ii) Material mix variance. (03 Marks)
- (iii) Material yield variance. (02 Marks)
- (Total 20 Marks)**

Question No:4 (20 Marks)

A company expects to prepare a budget for various activity levels in order to effectively compare the actual costs and revenues with the relevant budgeted information. The budgeted details are given below.

- (i) Material cost per unit is Rs.50/- and one hour is required to produce one unit
- (ii) Direct labor rate per hour is Rs.20/- and one hour is required to produce one unit.
- (iii) Indirect Labor is Rs.0.50 per direct labor hour
- (iv) Other variable overheads are Rs.0.70 per direct labor hour
- (v) Semi variable overheads for the last three years are:

Direct labor hours	Total Cost (Rs.)
60,000	140,000
50,000	120,000
70,000	160,000

Semi variable overhead rate per hour and the fixed overheads for each year remains the same and is expected to maintain at the same level.

- (vi) Other fixed overheads are as follows.

	Rs.
Management Fees	40,000.00
Salaries	30,000.00
Depreciation	30,000.00
Insurance	25,000.00
Rates	15,000.00
Maintenance	10,000.00

100% activity represents 50,000 direct labor hours

Budgeted selling price per unit is Rs.120 /=-

You are required to:

- (a) Prepare a budget for 60% and 80% activity levels. (14 Marks)
- (b) Feed-back reports are very important for an organization to control the activities and to ensure the achievement of targets. What are the essential features of a feed back report? (06 Marks)
- (Total 20 Marks)**

Section C

Answer one question only

Question No: 5 (20 Marks)

- (a) Discuss qualitative factors to be considered in decision making. **(12 Marks)**
- (b) Explain the factors to be considered in determining whether or not to investigate a particular variance. **(08 Marks)**
- (Total 20 Marks)**

Question No: 6 (20 Marks)

- (a) Explain how the management accountant of an entity can improve quality of the budgetary control system. **(12 Marks)**
- (b) Relevant Costs are future costs. Whenever any one tries to predict what will happen in the future, the prediction could well be wrong. The cost accountant has to make best estimates of the relevant income and costs and at the same time recognize the assumptions on which their estimates are based on. Explain the assumptions that are typically made in relevant costing? **(08 Marks)**
- (Total 20 Marks)**

End of Section C
End of Question Paper
