



Society of Certified Management Accountants of Sri Lanka

Technician Stage March 2009 Examination

Examination Date : 28th March 2009
Examination Time: 9.30a.m.- 12.30p.m.

Number of Pages : 06
Number of Questions: 05

Instructions to Candidates

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

Subject	Subject Code
Management Accounting Fundamentals	(MAF / 502)

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) Cost Accounting is different from Management Accounting as it;
- (i) provides information only to external user groups of an organization.
 - (ii) provides only cost information for external reporting and internal profit measurement.
 - (iii) provides cost information only for external reporting.
 - (iv) is a branch of financial accounting.

Answer questions (2) and (3) using the following information.

A chain of suppliers of shoes stocks a popular shoe for which the following information is available.

Average Usage	140 pairs of shoes per day
Minimum Usage	90 pairs of shoes per day
Maximum Usage	175 pairs of shoes per day
Lead Time	10 to 16 days
Re – Order Quantity	3,000 pairs of shoes

- (2) At what level of stocks should a replenishment order be issued?
- (i) 2,240
 - (ii) 2,800
 - (iii) 3,000
 - (iv) 5,740

- (3) What is the maximum level of stocks possible?
- (i) 2,800
 - (ii) 3,000
 - (iii) 4,900
 - (iv) 5,800
- (4) The main objectives of cost classification is
- (i) to study the behaviour of costs.
 - (ii) to control the costs.
 - (iii) to understand the various cost concepts.
 - (iv) to provide cost information for decision making and control.
- (5) Suitable cost classification for both decision- making and cost control is
- (i) Fixed, variable
 - (ii) Relevant and irrelevant
 - (iii) Period and product
 - (iv) Direct & indirect
- (6) Select the correct statement in respect of manufacturing costs;
- (i) All the variable costs are direct costs.
 - (ii) All the direct costs are variable.
 - (iii) All the manufacturing costs are variable costs.
 - (iv) All the costs are uncontrollable in the long run.
- (7) Select the correct statement
- (i) Fixed costs are constant at any level of activity.
 - (ii) Fixed costs are constant at the current operating level.
 - (iii) Fixed costs are constant in long run only.
 - (iv) Fixed costs are constant at any level of activity within the existing capacity.
- (8) Read the following statements
- (a) Creating a purchase department is necessary for each organization.
 - (b) Centralized Vs. decentralized purchasing department is a decision taken by the management.
 - (c) After placing an order, if usage goes above average or if the lead-time is longer than expected, then the stock will fall below minimum.
- (i) Only b & c are correct
 - (ii) Only a & b are correct
 - (iii) Only a & c are correct
 - (iv) All above factors are correct

- (9) The amount of overtime premium contained in direct wages would normally is classified as:
- Indirect labour cost
 - Factory overheads
 - Direct labour costs
 - Administrative overheads
- (10) Standard time is 60 hours and guaranteed time rate is Rs.50/- per hour. What is the amount of wages if job is completed in 48 hours? Rowan plan is in use.
- Rs.2,400
 - Rs.2,680
 - Rs.2,880
 - Rs.3,000

(10 * 2 Marks = Total 20 Marks)

Question No. 2 (20 Marks)

At the beginning of February 2008, the opening balance in the cost ledger of Good Luck Ltd. Was as follows.

	Rs.
Stores ledger control account	364,000
Work in progress control account	230,000
Finished goods control account	157,000
General ledger control account	751,000

During February 2008, the following transactions took place:

	Rs.	Rs.
Materials purchased		287,500
Materials issued to:		
Production department	213,000	
Service department	42,000	
Manufacturing equipment	<u>56,000</u>	
		311,000
Gross Factory wages paid:		
Direct wages	328,000	
Indirect wages	195,000	
Wages on production of manufacturing equipment	<u>60,000</u>	
		589,000
Production overheads incurred in producing manufacturing equipment		36,300
Production overheads incurred (other than manufacturing equipment)		19,700
Under absorbed production overhead in February 2008		40,000
Raw material stocks damaged & written off		12,000
Selling overheads incurred and charged to cost of sales		105,000
Sales		880,000

The company's gross profit margin is 25% on factory cost. A royalty payment for manufacture of this product per month is Rs.3,000/-.

At the end of February 2008, stocks of work in progress were Rs.76,400/- higher than the value at the beginning of the month. The equipment under production was completed on 25th February.

You are required to prepare:

- Stock Ledger Control Account. **(4 Marks)**
- Work in Progress control Account. **(4 Marks)**
- Finished Goods Control Account. **(4 Marks)**
- Production Overhead Control Account. **(4 Marks)**
- Equipment Account. **(4 Marks)**

(Total 20 Marks)

Question No. 3 (20 Marks)

STW makes two products namely 'Standard' and 'Specialty'. "Standard" products sell for Rs.34 per unit. 'Specialty' products sell for Rs.45 per unit. The following are the current Direct Material and Direct Labour costs of the Products:

		'Standard'		'Specialty'
Monthly Production units		10,000		2,500
Direct materials		Rs.20		Rs.17.50
Direct labour	0.5hr@Rs.12	Rs. 6	0.25hr@Rs.12	Rs.3

Overhead is absorbed to products on the basis of direct labour-hours. An estimated total overhead cost was Rs.101,250 and estimated direct labour hours were 5,625.

The following information relates to different activities & its cost to the organization.

Activity Cost Pool	Activity Measure	Expected Activity level of products			Estimated Overheads Rs.
		'Standard'	'Specialty'	Total	
purchasing	Number of orders	82	118	200	12,000
Material handling	Number of receipts	116	184	300	15,000
Production orders & setup	Setup hours	50	200	250	20,250
Inspection	Inspection hours	300	500	800	16,000
Frame assembly	Assembly hours	800	800	1,600	8,000
Machine related	Machine hours	5,000	5,000	10,000	30,000
					101,250

You are required to:

- (i) Calculate the total cost and gross profit per unit of each product using the traditional direct labour Hours basis to absorb overheads. **(6 Marks)**
 - (ii) Calculate the total cost and gross profit per unit of each product, using the expected Activity Level of Products from the above information to apply for overheads. **(10 Marks)**
 - (iii) Make recommendations to the management regarding absorption of overheads. **(4 Marks)**
- (Total 20 Marks)**

Question No. 4 (20 Marks)

Millan Engineering Works 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.

	Beginning Balance As at 1st June 2007	Ending Balance As at 31st May 2008
	Rs.	Rs.
Raw Materials	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 Rs.315,000
- Raw materials were requisitioned for use in production, Rs.307,000 (Rs.281,000 direct and Rs.26,000 indirect)
- The following employee costs were incurred:
 - Direct labour Rs.377,000
 - Indirect labour Rs. 96,000
 - Administration salaries Rs. 172,000
- Selling costs Rs.147,000
- Factory utility costs 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 is 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 totaled Rs.1,253,000.

You are required to:

- (i) Prepare a schedule of cost of goods manufactured. **(9 Marks)**
- (ii) Was the overhead under or over applied? By how much? **(2 Marks)**
- (iii) Prepare an income statement for the year. The company charges under or over applied overhead to cost of goods sold. **(9 Marks)**

(Total 20 Marks)

Question No. 5 (20 Marks)

Row manufactures T-shirts and decorates them with custom designs for retail sale on the premises. Several costs incurred by the company are listed below.

You are required to:

For each cost, indicate which of the following classifications best describe the cost. More than one classification may apply to the same cost item.

Cost classification:

- a. Variable
- b. Fixed
- c. Period product
- d. Administrative
- e. Selling
- f. Manufacturing
- g. Research and development
- h. Direct material
- i. Direct labour
- j. Manufacturing overhead

Cost items:

- (i) Cost of fabric used in T-Shirt
- (ii) Wages of shirt
- (iii) Cost of new sign in front of retail T-shirt shop
- (iv) Wages of the employee who repairs the firm's sewing
- (v) Cost of electricity used in the sewing
- (vi) Wages of T-shirt designers and painters
- (vii) Wages of sales personnel
- (viii) Depreciation on sewing machines
- (ix) Cost of daily advertisements in local media
- (x) Wages of designers who experiment with new fabrics, paints, and T-shirt designs

(Total 20 Marks)

End of Question Paper
