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Serial No.....

## Institute of Certified Management Accountants of Sri Lanka

### Technician Stage March 2010 Examination

**Examination Date :** 27<sup>th</sup> March 2010  
**Examination Time:** 9.30 a.m. 12.30 p.m.

**Number of Pages :** 05  
**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

<u>Subject</u>	<u>Subject Code</u>
<b>Management Accounting Fundamentals</b>	<b>(MAF / 502)</b>

#### 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 not a key success factor in a company's effort to deliver increased levels of performance to the customer?
  - (a) Time.
  - (b) Innovation.
  - (c) Quality.
  - (d) Price Reduction.
  
- (2) In supporting managers, management accountants have four guidelines. These guidelines are:
  - (a) Cost-benefits analysis, performance reporting, behavioral considerations and technical considerations.
  - (b) Cost-benefits analysis, behavioral considerations, technical considerations and different costs for different purposes.
  - (c) Financial statement preparation, technical considerations, strategic direction and budgeting.
  - (d) Following functional lines of authority, cost-benefit analysis, behavioral considerations and use of the value chain.
  
- (3) The cost of replacement of light bulbs on a campus would be a direct cost to a college but would need to be allocated as an indirect cost to
  - (a) Departments.
  - (b) Buildings.
  - (c) Schools.
  - (d) Individual student instructors.

- (4) Period costs are
- (a) All costs in the income statement other than cost of goods sold.
  - (b) Defined as manufacturing costs incurred this period on the schedule of cost of goods manufactured.
  - (c) Always recorded as assets when first incurred.
  - (d) Those costs that benefit future periods.
- (5) The primary focus of cost management is to
- (a) Help managers make different decisions.
  - (b) Calculate product costs.
  - (c) Aid managers in budgeting.
  - (d) Distinguish between relevant and irrelevant information.
- (6) Which of the following is not a factor in cost-volume-profit analysis?
- (a) Units sold.
  - (b) Selling price.
  - (c) Total variable costs.
  - (d) Fixed costs of a product.
- (7) Contribution margin is calculated as
- (a) Total revenue – total fixed costs
  - (b) Total revenue – total manufacturing costs (CGS)
  - (c) Total revenue – total variable costs
  - (d) Operating income + total variable costs
- (8) One way for managers to cope with uncertainty in profit planning is to
- (a) Use Cost Volume Profit (CVP) analysis because it assumes certainty.
  - (b) Recommend management hire a futurist to predict business trends.
  - (c) Wait to see what happens and prepare a report based on actual amounts.
  - (d) Use sensitivity analysis to explore various what- if scenarios in order to analyze changes in revenues or costs or quantities.
- (9) Which of the following statements is true?
- (a) Gross margin is another term for contribution margin.
  - (b) Contribution margin is acceptable for use in external financial statements.
  - (c) Contribution margin is used to help managers in decision making.
  - (d) Gross margin is revenues minus variable cost.
- (10) The first step in the seven-step approach to job costing is to
- (a) Select the cost-allocation base to use in assigning indirect costs to the job.
  - (b) Identify the direct costs of the job.
  - (c) Identify the job that is the chosen cost object.
  - (d) Identify the indirect-cost pools associated with the job.

**(10 × 2 Marks = Total 20 Marks)**

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

Kumara Enterprises has the following balances for your consideration:

	<b>Beginning of the Year</b>	<b>Ending of the Year</b>
	<b>2009</b>	<b>2009</b>
	<b>Rs.'000</b>	<b>Rs.'000</b>
Direct Materials Inventory	22,000	26,000
Work in Progress Inventory	21,000	20,000
Finished Goods Inventory	18,000	23,000
Purchases of Direct Materials		75,000
Direct Manufacturing Labour		25,000
Indirect Manufacturing Labour		15,000
Plant Insurance		9,000
Depreciation – Plant, Building and Equipments		11,000
Repairs and Maintenance – Plant		4,000
Marketing and Distribution		93,000
General Administration		29,000

**You are required to:**

- (a) Prepare a schedule for the cost of goods manufactured for the year 2009. **(8 Marks)**
  - (b) Revenue for 2009 was Rs.300 million. Prepare the income statement for 2009. **(5 Marks)**
  - (c) Describe how manufacturing, merchandising and service sector companies differ from each other. **(3 Marks)**
  - (d) Define Product Cost. Describe three different purposes for computing product costs. **(4 Marks)**
- (Total 20 Marks)**

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

Write short answers for following questions.

- (a) How does a job costing system differ from a process costing system? **(2 Marks)**
  - (b) Describe three major source documents used in job costing system. **(4 Marks)**
  - (c) Comment on the following statement “in a normal costing system, the amount in the manufacturing overhead control account will always equal the amounts in the manufacturing overhead allocated account”. **(5 Marks)**
  - (d) Why is it important to classify cost into a cost hierarchy? **(4 Marks)**
  - (e) In process costing, why are costs often divided into two main classifications? **(5 Marks)**
- (Total 20 Marks)**

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

The following data apply to the videotape production plant of the Dell Company for October 2009.

<b>Manufacturing Cost Estimated</b>	
<b>Per Videotape (Rs.)</b>	
Direct Materials	160
Direct Manufacturing Labour	90
Variable Manufacturing Overheads	70
Fixed Manufacturing Overheads	<u>100</u>
Total Manufacturing Costs	<u>420</u>

Variable manufacturing overhead varies with the number of units produced. Fixed manufacturing overhead of Rs.100/- per tape is based on estimated fixed manufacturing overhead of Rs.150,000,000/- per month and estimated production of 150,000 tapes per month. Dell Company sells each tape for Rs.500/-.

Marketing costs for the company has two components:

Variable marketing costs (sales commission) of 5% of revenues

Fixed monthly costs of Rs.650,000/-

During October 2009, Mohan Fonseka, a Dell Company sales person, asked the Chairman for permission to sell 1,000 tapes at Rs.400 per tape to a customer not in Dell's normal marketing channels. The Chairman refused this onetime special order proposal because the selling price was below the total estimated manufacturing cost.

**You are required to:**

- (a) What would have been the effect on monthly operating income of accepting the special order? **(10 Marks)**
  - (b) Comment on the Chairman's "bellow manufacturing costs" reasoning for rejecting the special order. **(4 Marks)**
  - (c) What other factors should the Chairman consider before accepting or rejecting the special order? **(6 Marks)**
- (Total 20 Marks)**

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

Wildlife Escapes generates average revenue of Rs.4,000/- per person on its three day package tours to Yala Park. The variable costs per person are:

Transportation	Rs.1,000/-
Hotel Accommodation	Rs.2,100/-
Other Costs	<u>Rs. 500/-</u>
Total	<u>Rs.3,600/-</u>

Fixed Cost is Rs.480,000/-

**You are required to:**

- (a) Calculate the number of package tours that must be sold to Break Even. **(3 Marks)**
- (b) Calculate the revenue needed to earn a target operating income of Rs.100,000/-. **(4 Marks)**
- (c) If fixed costs increased by Rs.24,000/-, what decrease in variable cost per person must be achieved to maintain the breakeven point calculated in requirement (a)? **(6 Marks)**
- (d) How does an increase in any tax rate affect the Breakeven Point? **(2 Marks)**
- (e) How can a company with multiple products compute its Breakeven Point? **(2 Marks)**
- (f) Describe three methods that can be used to express Cost Volume Profit (CVP) relationship? **(3 Marks)**

**(Total 20 Marks)**

End of Question Paper

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