



# Society of Certified Management Accountants of Sri Lanka

## Technician Stage September 2008 Examination

**Examination Date :** 27<sup>th</sup> September 2008  
**Examination Time:** 9.30a.m.- 12.30p.m.

**Number of Pages :** 07  
**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...**

<b>(1) Industry</b>	<b>Cost unit</b>	<b>Method of costing</b>
Buildings	House of square foot of area	A
Chemicals	Tonne, pounds or kilogram	B
Ready made garments	Numbers	C

Appropriate costing methods for A, B, and C above are;

- (a) A= Job costing    B= Process costing    C= Batch costing  
(b) A= Job costing    B= Process costing    C= Process costing  
(c) A= Batch costing    B= Process costing    C= Process costing  
(d) A= Job costing    B= Batch costing    C= Job costing

(2) The following information is obtained from a manufacturing firm

Level of activity (units)	Cost per unit (Rs.)
1000	28
2000	18

Select the correct answer

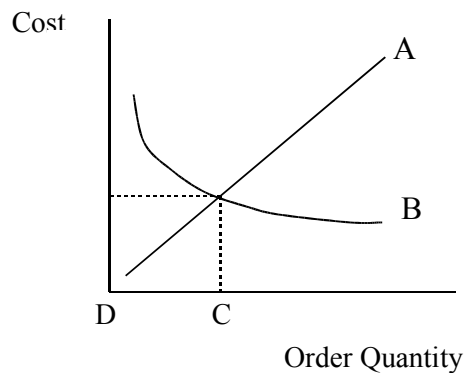
- (a) Total fixed costs is Rs. 20,000 and variable cost per unit is Rs.8  
(b) Variable cost per unit is Rs.10 and fixed cost per unit is Rs.20  
(c) Variable cost per unit is Rs.8 and fixed cost per unit is Rs.20  
(d) Fixed cost is Rs.20,000 and total variable cost at any level is Rs.8

(3) Select the correct X, Y & Z after reading following statements which explain the impact of material pricing methods.

- X= Valuation of inventory and cost of goods manufactured are consistent and realistic  
 Y= Inventory valuations do not reflect the current prices and therefore are useless in the context of current conditions  
 Z= Price is not based on actual price incurred, and therefore is not realistic.

- (a) X= FIFO                      Y=Weighted Average                      Z= LIFO  
 (b) X= LIFO                      Y=FIFO                                      Z= Weighted Average  
 (c) X= LIFO                      Y=Weighted Average                      Z= Standard price  
 (d) X= FIFO                      Y=LIFO                                      Z= Weighted Average

(4) Select the A, B, C & D for the following graph.



- (a) A = Holding cost                      B = Ordering cost                      C = EOQ                      D= Not total cost of EOQ  
 (b) A= Ordering cost                      B= Holding cost                      C= EOQ                      D= Total cost of EOQ  
 (c) A= Holding cost                      B= Ordering cost                      C= EOQ                      D= Total Cost  
 (d) A= Holding cost                      B= Ordering cost                      C= EOQ                      D= Average Cost

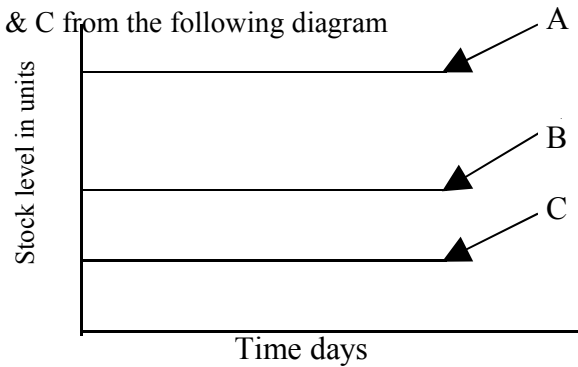
(5) Following information relate to Material X of ABC Ltd.

Working days in the year	200
Safety stock	400 units
Lead time	10 Days
Order cost	Rs. 300 per order
Holding costs	Rs. 15% of costs per unit
Annual consumption	10,000 units
Cost per unit	Rs. 10

Select the correct answer

- (a) EOQ= 3000 units                      Re-order point = 500 units  
 (b) EOQ= 1000 units                      Re-order point = 500 units  
 (c) EOQ= 2000 units                      Re-order point = 900 units  
 (d) EOQ= 2000 units                      Re-order point = 400 units

(6) Identify A, B & C from the following diagram



- (a) A= Re- order point      B= Re-order quantity      C= Buffer stock  
 (b) A= Maximum level      B= Re-order level      C= Minimum level  
 (c) A= Re- order point      B= Re-order level      C= Minimum level  
 (d) A= Re- order point      B=EOQ level      C= Buffer stock

(7) Match the items in column 1 to column 2 and find the correct answer from the alternatives given under.

Column 1		Column 2	
1	ABC system	P	Bin card
2	Purchased material recorded	Q	Stores requisition note
3	Used to issue material items to the production	R	Control of inventory

- (a) 1= Q    2= P    3= R  
 (b) 1= P    2= Q    3= R  
 (c) 1= R    2= P    3= Q  
 (d) 1= P    2= R    3= Q

**Answer the question 8, 9 & 10 using following information.**

A factory manufactures three components X, Y and Z.

During week 26, the following was recorded:

Labour grade	Number of employees	Rate per hours (Rs.)	Individual hours worked
A	6	4.00	40
B	18	3.20	42
C	4	2.80	40
D	1	1.60	44

The normal working week is 38 hours, and overtime is paid at a premium of 50% of the normal hourly rate.

- (8) What is the basic pay for grade 'C' labour?  
 (a) Rs.425.60      (b) Rs.112.00      (c) Rs.448.00      (d) Rs.106.40
- (9) What is the overtime premium for grade 'B' labour?  
 (a) Rs. 19.20      (b) Rs.230.40      (c) Rs. 6.40      (d) Rs. 12.80

(10)What is the total gross pay for grade 'D' labour?

(a) Rs. 60.80

(b) Rs. 70.40

(c) Rs. 75.20

(d) Rs. 91.20

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

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

Three students, C, M and A are equal partners in a part time business of buying and selling bags of Product E. The transactions for the six months ended 30<sup>th</sup> September were as stated below. You are to assume that purchases at unit costs given were made at the beginning of each month and that the sales were made at the end of each month at the fixed price of Rs.150 per bag.

Month	Purchases		Sales
	Bags	Unit Cost (Rs.)	Bags
April	1,000	100	500
May	500	120	750
June	1,000	100	Nil
July	Nil	-	600
August	500	120	650
September	500	130	600

There were no other transactions.

In October the student partners held a meeting to review their financial position and share the profits. However there was disagreement because each partner had priced the issues on a different basis. C had used FIFO, M had used LIFO and A had used a weighted average, basing his weighted average on the whole of the six months' purchases.

**You are required to:**

- (a) Show the entries in records which each student kept of the transactions. **(10 Marks)**
  - (b) Calculate the amount each student ought to receive if the whole of the profit arising from each method of pricing the issues were distributed. **(5 Marks)**
  - (c) Comment briefly on the acceptability of the three different results arising from the transactions. **(5 Marks)**
- (Total 20 Marks)**

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

Following balances are extracting from book of a manufacturing firm as at 1<sup>st</sup> January 2008 which uses a single ledger for both Cost Accounting purpose and Financial Accounting purpose.

	Rs.
Work in progress control	24,000
Raw material control	18,000
Finished goods control	12,000

Transactions for the month of January 2008 are given below.

	Rs.
Direct material purchased on credit basis	80,000
Payments to creditors	50,000
Indirect material purchased on cash basis	20,000
Direct material issued	65,000
Indirect material issued	14,000
Direct wages incurred and paid	40,000
Indirect wages paid	12,000
Depreciation on machinery	30,000
Other production overhead paid	20,000
Non manufacturing overhead paid	30,000

Following information is also available.

Closing stock at the end of the period

	Rs.
Work –in-progress	19,000
Finished goods	11,000
Over absorption of overhead costs	8,000

**You are required to prepare the following ledger accounts.**

- (a) Raw material control a/c. (4 Marks)
- (b) Wages control a/c. (2 Marks)
- (c) Production overhead control a/c. (6 Marks)
- (d) Work-in- progress control a/c. (5 Marks)

- (e) Finished goods control a/c  
(3 Marks)

(Total 20 Marks)

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

- (1) The following information is relevant for Job no. 261, 262 and 263.

	261	262	263
Direct material issued (Rs.)	40,000	30,000	45,000
Direct labor (Rs.)	20,000	24,000	34,000
Direct labor hours	8,000	6,000	9,000

**Additional Information:**

Budgeted overhead cost for the period	Rs. 180,000
Budgeted labor hours	60,000

Overhead costs are charged to the jobs on the basis of labor hours.

Job No. 261 has been completed and sold

Job No. 262 has been completed but not sold

Job No. 263 is in work-in- progress

**You are required to prepare the Job Ledger.**

**(8 Marks)**

- (2) Araliya Company Ltd is a manufacturing firm, which produces a single product. The following information has been provided.

The sales and profits for two years are as follows.

	Sales (Rs.)	Profit (Rs.)
2003	150,000	20,000
2004	170,000	25,000

**You are required to Calculate:**

- (a) P / V Ratio. **(2 Marks)**
- (b) Break - even point. **(2 Marks)**
- (c) Sales required to earn a profit of Rs.40,000. **(2 Marks)**
- (d) Margin of safety at a profit of Rs.25,000. **(2 Marks)**
- (e) Total profit when sales Rs.100,000. **(2 Marks)**

(f) Fixed cost of the firm.

**(2 Marks)**  
**(Total 20 Marks)**

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

XYZ Limited makes three main products, mainly using the same production methods and equipment for each. A conventional product costing system is used at present. However an Activity based Costing (ABC) system is being considered. Budgeted details of three products for a typical period are:

	Hours per Unit		Materials cost per unit	Volumes in Units
	Labour hours	Machine hours	Rs.	
<i>Product X</i>	1/2	1 1/2	20	750
<i>Product Y</i>	1 1/2	1	12	1,250
<i>Product Z</i>	1	3	25	7,000

Direct labour costs Rs.6 per hour and production overheads are absorbed on machine hour basis. The absorption rate for the period is Rs.28 per machine hour based on budgeted overhead cost of Rs.654,500.

**You are required to:**

- (a) Calculate the cost per unit for each product using conventional overhead absorption methods. **(6 Marks)**

Further analysis shows that the total of production overheads can be divided as follows:

	%
Costs relating to set-ups	35
Costs relating to machinery	20
Costs relating to materials handling	15
Costs relating to inspection	30
Total production overhead	100

The following activity volumes are associated with the product line for the period as a whole.

Total activities for the period.

	Number of set-ups	Number of movements of materials	Number of Inspections
<i>Product X</i>	75	12	150
<i>Product Y</i>	115	21	180

Product Z	480	87	670
	<b>670</b>	<b>120</b>	<b>1,000</b>

**You are required to:**

- (b) Calculate the cost per unit for each product using ABC principles. **(10 Marks)**
- (c) Comment on the reasons for any differences in the overhead costs in your answer to (a) and (b) absorbed by the products. **(4 Marks)**
- (Total 20 Marks)**

End of Question Paper

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