



Institute of Certified Management Accountants of Sri Lanka

Technician Stage September 2009 Examination

Examination Date : 19th September 2009
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>
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) Select the correct order in which the steps in the decision making process occur;
- (i) Choose a course of action
 - (ii) Establish goals
 - (iii) Gather available information
 - (iv) Evaluate the consequences of the various alternatives
- (a) (i), (ii), (iii), (iv)
 - (b) (ii), (iv), (iii), (i)
 - (c) (ii), (iii), (iv), (i)
 - (d) (iv), (iii), (ii), (i)
 - (e) (iii), (i), (ii), (iv)
- (2) The conversion of raw materials into finished products by a manufacturing entity is, which of the following?
- | | Internal transaction | | External transaction |
|-----|---|--|----------------------|
| (a) | Yes | | Yes |
| (b) | Yes | | No |
| (c) | No | | Yes |
| (d) | No | | No |
| (e) | Unable to be determined from the information provided | | |

- (3) External decision makers can be divided into four groups. To which of these groups do investors and creditors belong?
- (a) Managers and governing bodies
 - (b) Resource providers
 - (c) Recipients of goods and services
 - (d) Reviewed and overseers
 - (e) None of the above
- (4) The costing system used when entities provide goods or services in response to customer orders and specifications is known as:
- (a) Process costing
 - (b) Job costing
 - (c) Equivalent unit costing
 - (d) Convention costing
 - (e) Trade costing
- (5) The statement concerning the job cost that is incorrect is?
- (a) It provides an itemized list of all costs charged to a particular job.
 - (b) Orders for incomplete jobs serve as a subsidiary for the work in progress account.
 - (c) It is used primarily in a process costing system.
 - (d) The control number assigned to each job is recorded on the job order.
 - (e) None of the statements is incorrect.
- (6) Which most accurately describes the flow of cost through a management accounting system?
- (a) Purchases to Finished Goods to Work in Progress.
 - (b) Work in Progress to Cost of Goods Sold.
 - (c) Factory overhead applied to Work in Progress to Finished Goods.
 - (d) Purchases to Factory overhead to Cost of Goods Sold.
 - (e) None of the above.
- (7) Which of the following is not relevant in the evaluation of a make-or-buy decision?
- (a) Quality control
 - (b) Alternative uses of the unused capacity
 - (c) Potential adverse effects on business relationships
 - (d) Differential costs
 - (e) None of the above, i.e., all are relevant.
- (8) Product costs are integral to the production of a product and are expensed in the period in which:
- (a) The related units are sold
 - (b) The related units are produced
 - (c) The related units are delivered to the store
 - (d) The costs are paid
 - (e) The costs are incurred

- (9) Which of these statements is correct?
- Items such as glue, nails and screws become part of the finished product but are usually classified as factory overhead.
 - The salary of factory maintenance personnel would be classified as direct labour.
 - The cost of collecting debts from customers is classified as part of factory overhead.
 - Power used to operate the machinery is classified as factory overhead.
 - A and D are correct statements.
- (10) In relation to the cost of goods manufactured statement which of the following is not correct?
- It is prepared to calculate the cost of goods completed in the period.
 - The total of direct materials, direct labour and factory overhead represent the manufacturing costs for the period.
 - The ending work in progress is subtracted to obtain the cost of completed goods manufactured for the period.
 - The beginning work in progress is added to the manufacturing costs of the current period.
 - None of the above, i.e. all statements are correct.

(10 * 2 Marks = Total 20 Marks)

Question No. 2 (20 Marks)

Alexandra Aluminum Company, a manufacturer of aluminum products had following inventory balances at the beginning and end of 2008 /2009.

Inventory Classification	April 1, 2008	March 31, 2009
	(Rs.)	(Rs.)
Raw Materials	55,000	75,000
Work in progress	110,000	125,000
Finished Goods	160,000	155,000

During 2008 / 2009, the company purchased Rs.240,000/- worth of raw material and spent Rs.420,000/- on direct labour. Manufacturing overheads related to the same period were as follows:

	Rs.
Indirect Materials	12,000
Indirect Labour	22,000
Depreciation on Plant & Equipment	110,000
Factory Utilities	23,000
Other Factory Expenses	35,000

Sales revenue was Rs.1,210,000/- for the year. Selling and Administration expenses for the year amounted to Rs.105,000/-. The company tax rate is 40%.

You are required to:

- Prepare a schedule of cost of goods manufactured. **(9 Marks)**
 - Prepare a schedule of cost of goods sold. **(4 Marks)**
 - Prepare an income statement. **(7 Marks)**
- (Total 20 Marks)**

Question No. 3 (20 Marks)

Write short answers for the following questions.

- (a) List and explain four purposes of product costing. **(4 Marks)**
 - (b) Explain the difference between job-order and process costing. **(2 Marks)**
 - (c) Describe one advantage and one disadvantage of prorating over applied or under applied overhead. **(4 Marks)**
 - (d) Explain the difference between actual and normal costing. **(3 Marks)**
 - (e) What is meant by the term “cost driver”? What is a ‘volume based cost driver’? **(3 Marks)**
 - (f) Give an example of how a hospital might use job-order costing concepts. **(4 Marks)**
- (Total 20 Marks)**

Question No. 4 (20 Marks)

BCC Lanka Limited uses a job-order costing system for its products, which pass from the Machining Department to the Packing Department performing a number of manual and machine activities. The company applies manufacturing overheads by use of machine hours in the Machine Department and direct labor cost in the Packing Department. The following information relates to the current year as follows:

	Machine Dep.	Packing Dep.
Budgeted Manufacturing Overheads	Rs. 4,000,000	3,080,000
Actual Manufacturing Overheads	Rs. 4,260,000	3,150,000
Budgeted Direct Labor Costs	Rs. 1,500,000	5,600,000
Actual Direct Labor Costs	Rs. 1,450,000	5,780,000
Budgeted Machine Hours	400,000	100,000
Actual Machine Hours	425,000	110,000

The following data pertain to job no. 100, the only job in production at year end.

	Machine Dep.	Packing Dep.
Direct Materials	Rs. 24,500	6,700
Direct Labor	Rs. 27,900	58,600
Machine Hours	360	150

You are required to:

- (a) Assuming the use of normal costing, determine the predetermined overhead rates used in the Machine Department and the Packing Department. **(2 Marks)**
 - (b) Calculate the cost of the company's year end work in process inventory. **(7 Marks)**
 - (c) Determine whether overhead was under or over applied during the year in the Machine Department. **(2 Marks)**
 - (d) Determine whether overhead was under or over applied during the year in the Packing Department. **(2 Marks)**
 - (e) If BCC dispose under or over applied overhead as an adjustment to Cost of Good Sold, would the company's cost of good sold account increase or decrease? Explain your answer. **(3 Marks)**
 - (f) How much overhead would have been charged to the company's Work-in-Process account during the year? **(2 Marks)**
 - (g) Comment on the appropriateness of the company's cost drivers (i.e. use of machine hours in Machining and direct-labor cost in Packing). **(2 Marks)**
- (Total 20 Marks)**

Question No. 5 (20 Marks)

Royal Company Ltd, which is located in Gampaha, manufactures a component used in farm machines. The company's fixed costs are Rs.2,000,000/- per year. The variable cost of each component is Rs.1,000/-, and the components are sold for Rs.1,500/- each. The company sold 7000 components during the previous year.

You are required to:

- (a) Compute the Break-Even point in units. **(2 Marks)**
 - (b) What will the new break-even point be if the fixed costs increase by 5%. **(3 Marks)**
 - (c) What was the company net income for the prior year? **(5 Marks)**
 - (d) The sales manager believes that reduction in the sales price to Rs.1,400 will result in orders for 1000 more components each year. What will the break-even point be if the price is changed? **(2 Marks)**
 - (e) Should the price change discussed above, need to be implemented? **(8 Marks)**
- (Total 20 Marks)**

End of Question Paper
