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Serial No.....

Institute of Certified Management Accountants of Sri Lanka
Operational Level
May 2015 Examination

Examination Date : 23rd May 2015 **Number of Pages :** 05
Examination Time: 9.30 a.m. – 12.30 p.m. **Number of Questions:** 07

Instructions to Candidates

1. Time allowed is **three (3) hours**.
2. Total: **100 Marks**.
3. Answer **all** questions in Part I and **four (4)** questions from Part II selecting **two (2)** question from each of the Sections **A** and **B**.
4. The answers should be in **English Language**.

<u>Subject</u>	<u>Subject Code</u>
Operational Management Accounting	(OMA / OL 1 - 201)

PART I

Question No. 01 (20 Marks)

For questions 1 to 10, select the most appropriate answer from the given answers under (a), (b), (c) & (d) for each question and write only the letter [i.e. (a) or (b) or (c) or (d)] relating to the most appropriate answer against the question number, in the answer booklet.

- (1) 'The predetermined cost of manufacturing a single unit or a number of product units during a specific period in the immediate future'. This statement refers to:
 - (a) The marginal cost
 - (b) The standard cost
 - (c) The opportunity cost
 - (d) The fixed cost
- (2) Main function of Management Accounting is:
 - (a) providing relevant information to help managers make better decisions.
 - (b) collecting accounting information which is useful for different managerial functions.
 - (c) allocating costs between cost of goods sold and inventories for internal & external profit reporting.
 - (d) providing information for planning and performance measurement.
- (3) Which of the following may be reasons for labour rate variances?
 - (i) Changes in basic wage rate.
 - (ii) Overtime work at higher than standard rate.
 - (iii) Overtime work at lower than standard rate.
 - (a) (i) and (ii) only
 - (b) (i) and (iii) only
 - (c) (ii) and (iii) only
 - (d) All of the above

- (4) The unit cost of a particular product is as follows: Overhead cost Rs.200/-, Material cost Rs.300/-, Labour cost Rs.400/- and if the selling price is Rs.1,125/-, what is the profit margin on cost?
- 25%
 - 20%
 - 15%
 - None of the above
- (5) Select the assumptions of a limiting factor analysis from the given list.
- Fixed costs will be the same regardless of the decision that is taken.
 - The unit variable cost is constant, regardless of the output quantity of a product or service.
 - The estimates of sales demand for each product, and the resources required to make each product, are known with certainty.
 - Units of output are divisible, and a profit-maximizing solution might include fractions of units as the optimum output level.
- (i), (ii) and (iii) only
 - (i), (iii) and (iv) only
 - (ii) and (iii) only
 - All of the above
- (6) $\text{Production volume ratio} = \frac{\text{Standard hours produced}}{X} \times 100\%$
- In the above formula X refers to:
- Budgeted capacity
 - Actual capacity
 - Quantity of sales
 - None of the above
- (7) 'The measurement of variances between planned outputs and outputs achieved, and the revision of succeeding action and/or plans to achieve future required outcome.' This statement refers to:
- Positive feedback
 - Feed forward control
 - Feedback control
 - None of the above
- (8) Which of the following is not a method of allocation of joint costs?
- Sales Value method
 - Physical Output method
 - Net Realizable Value method
- (i) only
 - (ii) only
 - (iii) only
 - None of the above
- (9) Which of the following statement(s) is/are correct?
- The learning curve can be applied for: Pricing decisions; Work scheduling; Standard setting.
 - In process costing, a cost of production report is used to collect, summarize and compute total and unit costs.
 - Cost accounting is concerned with cost accumulation for inventory valuation to meet the requirements of external reporting and internal profit measurement.

- (a) (i) and (ii) only
- (b) (ii) and (iii) only
- (c) (iii) only
- (d) All of the above

(10) Following details are given in relation to a Process 1 for the month of January:

Units started in production	-	100,000	
Opening inventory	-	10,000	(80% completed)
Closing inventory	-	20,000	(70% completed)

If the firm uses FIFO method what will be the number of equivalent units?

- (a) 96,000
- (b) 104,000
- (c) 94,000
- (d) 106,000

(10 × 2 Marks = Total 20 Marks)

End of Part I

PART II

Section A

Answer any two (2) questions

Question No. 02 (20 Marks)

- (a) Define Single loop feedback and Double loop feedback. **(04 Marks)**
- (b) Briefly explain the meaning of 'Responsibility Accounting'. **(05 Marks)**
- (c) LANU LANU is manufacturer of carpets and they manufacture 15,000 units of one type of a product. The current costs and sales data are as follows:

	Rs.
Variable cost	125 per unit
Selling price	200 per unit
Fixed costs	500,000

The management is considering on two alternatives:

Alternative X: To accept an order for another 3,000 units at Rs.190/- per unit from a new customer. The expenses of the new order will increase the fixed costs by Rs.100,000/-.

Alternative Y: To reduce the production by 5,000 units and buy another 5,000 units from the outside at Rs.110/- per unit. This will result in a reduction of the present fixed costs by Rs 50,000/-.

- (i) What is the current level of profit of the company? **(03 Marks)**
- (ii) Which alternative should the management accept, if the incremental costs are matched with incremental revenues in making decisions of the company? Show your calculations and give your opinion explaining the incremental levels of costs and revenues. **(08 Marks)**

(Total 20 Marks)

Question No. 03 (20 Marks)

A table manufacturer ABBA produces two types of chairs AB and BA. The fixed costs are Rs.1,120,000/- per annum. Following details are provided in relation to the two products.

	AB (Rs.)	BA (Rs.)
Variable Costs	15	10
Sales Price	35	20
Current sales units per annum	210,000	140,000

Also it is identified that there is a constant sales mix.

- (a) What is the proportion of the sales mixture? **(02 Marks)**
- (b) What is the contribution per sales mixture? **(06 Marks)**
- (c) Calculate the break-even number of sales mixtures. **(03 Marks)**
- (d) Calculate the total units included in one sales mixture. **(02 Marks)**
- (e) How many chairs of AB and BA should the company sell to break-even? **(04 Marks)**
- (f) What is the break-even number of sales mixtures if the fixed cost increases by Rs. 48,000/-? **(03 Marks)**

(Total 20 Marks)

Question No. 04 (20 Marks)

- (a) Briefly explain the limitations in cost estimation. **(04 Marks)**
- (b) Briefly explain the decision making process and the budgeting process. **(12 Marks)**
- (c) Explain 'Kaizen Budgeting'. **(04 Marks)**

(Total 20 Marks)

End of Section A

Section B

Answer any two (2) questions

Question No. 05 (20 Marks)

Given below are details related to Process I of a manufacturing process.

Material issued	2,000 kgs. at Rs.200/- per kg.
Wages (Rs.)	50,000
Overhead (Rs.)	10,000
Normal loss	10% of input
Actual output	1,750 kgs.

- (a) You are required to prepare the:
 - (i) Process account and show the relevant workings. **(12 Marks)**
 - (ii) The abnormal wastage account. **(02 Marks)**
- (b) If the scraped items have a value of Rs.10/- per kg:
 - (i) What is the value of the units transferred to the process II? **(02 Marks)**
 - (ii) What is the value of normal wastage? **(02 Marks)**
 - (iii) What is the value of abnormal wastage? **(02 Marks)**

(Total 20 Marks)

Question No. 06 (20 Marks)

- (a) There are various reasons for companies to undertake Enterprise Resource Planning (ERP). At the meantime there are benefits in ERP. Discuss the reasons and benefits of undertaking ERP in companies. **(10 Marks)**

- (b) Explain Computer Integrated Manufacturing (CIM) and discuss the functional areas of CIM in brief. **(10 Marks)**

(Total 20 Marks)

Question No. 07 (20 Marks)

- (a) Explain the meaning of 'Scientific management movement'. **(06 Marks)**

- (b) Differentiate between:
(i) Product costs and period costs **(03 Marks)**

- (ii) Escapable costs and Inescapable costs **(03 Marks)**

- (c) Briefly explain the benefits of Material Requirement Planning (MRP). **(08 Marks)**

(Total 20 Marks)

End of Section B

End of Part II

End of Question Paper
