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Serial No.....

**Institute of Certified Management Accountants of Sri Lanka**  
**Operational Level**  
**May 2012 Examination**

**Examination Date :** 13<sup>th</sup> May 2012 **Number of Pages :** 07  
**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 the **English Language**.

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

**PART I**

**Question No. 01 (20 Marks)**

**For questions 1 to 5, state whether each statement given is “True” or “False”. If True write ‘T’ or if False write ‘F’, in your answer booklet, against the relevant question number.**

- (1) The two basic views of the history of management accounting are the Economic Rationalists view and the Foucauldian view. The first group views management accounting as a functional accounting of technical responses to changing economic demands.
- (2) If ABC company’s actual production overhead for the year 2011 was Rs.650,000/-; total direct labor hours worked were 1,000 and the predetermined production overhead rate is Rs.6/- per direct labour hour, the production overhead that will be absorbed to ABC’s jobs completed during the year 2011 would be Rs.600,000/-.
- (3) Functions of management accounting are planning, provide training for accounting personnel, finalizing annual accounts for publication and controlling.
- (4) The net revenues from the by-products are deducted from the cost of the joint production process prior to allocating the costs to the individual joint products.
- (5) The joint costs allocated to products are irrelevant for decision making in relation to further processing.

**For questions 6 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.**

- (6) Amila started to produce 15,000 units and completed 10,000 units, leaving 5,000 units in work-in-process at a level of 40% complete. How many equivalent units of production did Amila complete for the period under consideration?
- (a) 10,000 units
  - (b) 12,000 units
  - (c) 13,000 units
  - (d) 15,000 units
- (7) “Concerned with formulation of costing principles, methods and techniques to be adopted by a business” is a statement mostly relevant to a definition for:
- (a) Cost accountancy.
  - (b) Costing.
  - (c) Cost accounting.
  - (d) Cost.
- (8) Definition for ‘Risk’ and ‘Uncertainty’ respectively are:
- (i) A situation in which the outcome is subject to an uncontrollable random event stemming from a known probability distribution.
  - (ii) A situation in which the outcome is subject to an uncontrollable random event stemming from an unknown probability distribution.
  - (iii) A situation in which the outcome is subject to a controllable random event stemming from an unknown probability distribution.

Which one is the most correct, out of the four?

- (a) (i) and (ii) only.
  - (b) (ii) and (i) only.
  - (c) (i) and (iii) only.
  - (d) (ii) and (iii) only.
- (9) Which of the following could be recognized as different from the other remaining three, in the context of “cost accounting” and “financial accounting”?
- (a) The fundamental principles of double entry are applicable.
  - (b) The invoices and vouchers constitute the common basis for recording transactions.
  - (c) The results of a business are revealed by both.
  - (d) The causes for losses and wastages of a business are analysed & provided.
- (10) A responsibility centre is a unit of a firm where the unit manager is held responsible for the performance of that unit. Which of the following is **NOT** a responsibility centre?
- (e) Cost centres.
  - (f) Revenue centres.
  - (g) Investment centres.
  - (h) Project centres.

**(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) The need for cost accounting was provoked due to several reasons. Briefly explain the main reasons for the emergence of cost accounting. **(06 Marks)**
- (b) The history of cost accounting can be traced back to the several centuries. In the course of its evolution, it passed through different stages. Briefly explain those main stages. **(06 Marks)**
- (c) Explain the concept of 'Life Cycle Cost' and its importance to decision making. **(04 Marks)**
- (d) Explain the major factors that influence to have changes in the current competitive environment in which the management accountants are operating. **(04 Marks)**

**(Total 20 Marks)**

#### Question No. 03 (20 Marks)

- (a) Briefly explain the limitations of cost estimation. **(04 Marks)**
- (b) Even though there are limitations of cost estimation, still it is used as a tool. Briefly explain the reasons for this usage. **(03 Marks)**
- (c) Describe three situations in which the learning curve may be applied in practice. **(06 Marks)**
- (d) Darsh Plc. deals with the Product Y and its production and sales details for two periods are as follows:

	<b>Period I in units</b>	<b>Period II in units</b>
Production	28,000	31,000
Sales	25,000	32,000

Selling price per unit of Y is Rs.16 per unit.

Fixed manufacturing overhead per period is Rs.120,000/-. The firm absorbs the fixed manufacturing overheads into the cost of production at a unit rate based on the normal activity level of a period i.e. 25000 units per period.

Variable manufacturing cost of product Y is Rs.9.00.

To calculate the manufacturing profit at the end of each period, the under or over absorbed fixed manufacturing overheads are transferred to the profit and loss account.

**You are required to present** a statement indicating the manufacturing profit for Period II, using the current absorption costing method. **(07 Marks)**

**(Total 20 Marks)**

**Question No. 04 (20 Marks)**

- (a) Briefly explain 'Budget of a company'. **(02 Marks)**
- (b) Briefly explain the difference between 'Static budget' and 'Static budget variance'. **(04 Marks)**
- (c) ABC Manufacturers is a leading shoe manufacturing firm and the following information relates to their budgets and the actual results for the month of December 2011.

Budgeted costs are as follows:

Income Statement Item	Budgeted amount per unit  Rs.	Alternative Budgeted Output Levels in units	
		10,000 units Rs.	20,000 units Rs.
Revenue	50	500,000	1,000,000
<b>Variable costs:</b>			
Materials	25	250,000	500,000
Labour	10	100,000	200,000
Overhead (OHs)	<u>5</u>	<u>50,000</u>	<u>100,000</u>
Total	<u>40</u>	<u>400,000</u>	<u>800,000</u>
<b>Contribution margin</b>	<u>10</u>	<u>100,000</u>	<u>200,000</u>
<b>Fixed costs:</b>			
Manufacturing Overhead		100,000	100,000
Other fixed costs		<u>50,000</u>	<u>50,000</u>
Total fixed costs		<u>150,000</u>	<u>150,000</u>
<b>Operating Profit/(Loss)</b>		<u>(50,000)</u>	<u>50,000</u>

Actual revenue and costs are as follows:

Income Statement Item	Actual Results at units
	16,000 units (Rs.)
Revenue	870,000
<b>Variable costs:</b>	
Materials	230,000
Labour	167,000
Overhead	<u>84,000</u>
Total	<u>481,000</u>
<b>Contribution margin</b>	<u>389,000</u>
<b>Fixed costs:</b>	
Manufacturing Overheads	110,000
Other Fixed costs	<u>45,000</u>
Total fixed costs	<u>155,000</u>
<b>Operating Profit</b>	<u>234,000</u>

**You are required to:**

- (i) Prepare a flexible budget for the production level of 16,000 units and as the actual output was also 16,000 units for the month of December 2011, state the actual results (figures) as corresponding figures for your budgeted figures to have a complete statement for comparison.
- (ii) Calculate the variances related to each of the cost components and revenue and comment on the behaviour of the variances.

**(14 Marks)**  
**(Total 20 Marks)**  
End of Section A

**Section B**

Answer any two (2) questions

**Question No. 05 (20 Marks)**

- (a) Write short notes on the following:
  - (i) Total Quality Management (TQM).
  - (ii) Electronic Data Interchange (EDI).
  - (iii) De-Merits in Budgeting.
  - (iv) Effective Cost Control System. **(10 Marks)**
- (b) Briefly explain 'Cost of Quality Report' and the four categories of costs that should be addressed in a cost of quality report. **(06 Marks)**
- (c) AVC Co. operates a production process for producing three products, namely; A, B, and C. Also it has one by product, in the name of X. Given below is the output for the month of June 2011:

Product	Selling Price per unit in Rs.	Output in units
A	25	22,000
B	30	25,000
C	35	20,000
X	3	4,000

The total output costs were Rs.612,000/-.

**You are required to calculate** the Cost of a unit C assuming that the company uses sales revenue as the basis for allocating joint costs to its products. **(04 Marks)**

**(Total 20 Marks)**

**Question No. 06 (20 Marks)**

Janakala Plc. operates a chain of traditional food restaurants and they use a standard marginal costing system to monitor the costs incurred in its branches. The standard cost of one of its most popular plates is as follows:

Food ingredients	1.10 units	Rs. 2.20 per plate
Labour	3.00 minutes	Rs. 0.30 per plate
Variable conversion costs	3.00 minutes	Rs. 0.08 per plate
The standard selling price of a plate		Rs. 3.15

In one of its branches, which had budgeted sales and production activity level at 59,000 of such plates, the actual number of such plates that were prepared and sold during December 2011 was 55,000. The actual cost data was as follows:

Ingredients	59,000 units	Rs. 110,000
Labour	2,200 Hours	Rs. 9,000
Variable conversion costs	2,200 Hours	Rs. 4,500
Actual revenue from the sale of meal		Rs. 162,150

**You are required to:**

- (a) Calculate the total budgeted contribution and the total actual contribution of the Branch for December 2011. **(04 Marks)**
  - (b) Make a report to be submitted at the monthly discussions of the managers, reconciling the budgeted and actual contributions for the month of December 2011. All variances should be shown with workings. **(16 Marks)**
- (Total 20 Marks)**

**Question No. 07 (20 Marks)**

- (a) Briefly explain the five primary types of transfer prices that companies could use to transfer goods and services to their prospective buyers. **(05 Marks)**
- (b) ABC Plc is a firm specialized in data processing and consultancy services in the field of manufacturing. The firm has several divisions that provide services to each other and also to external clients. The performance of the divisional managers is measured against targets given to them by the top management.

The consulting division accepted a project from XY Plc in November and they agreed to make a fee of Rs.28,000/-. That was excluding the data processing charges of Rs.4,000/-.

The data processing which required 300 hours of processing time could be carried out by the internal data processing division because they had 300 chargeable skilled hours available in November. Otherwise, an external agency would have been used for this purpose.

Finally the internal data processing division provided their services to the consultancy division in the month of November for this project with XY Plc. The budgeted costs of internal data processing division for the full year ending 31<sup>st</sup> December 2011, were as follows and its monthly hours are evenly distributed:

	<b><u>Full Year (Rs.)</u></b>
	<b><u>2011</u></b>
Variable cost:	
Skilled labour (9,000 Hours)	180,000
Semi-skilled labour	120,000
Other processing costs	96,000
Fixed costs	360,000

The costs are recovered on the basis of chargeable skilled labour hours. Skilled labour hours worked for November 2011 was 80% of the budgeted hours.

The internal data processing division's external pricing policy is to add a 45% mark-up to its total budgeted costs based on the number of chargeable hours.

During November 2011, actual skilled and unskilled labour costs incurred by the internal data processing division were 11% higher than expected, but other processing costs were 6% lower than expected.

**You are required to:**

- (i) Calculate the total transfer values that would have been charged to the internal data processing division by the consulting division for the 300 hours spent on the XY Plc project, on the following three bases, separately.
  - a. Market price.
  - b. Actual variable cost.
  - c. Standard variable cost + 45% mark up. **(09 Marks)**
- (ii) Ascertain that how the three alternative transfer values calculated in part (i) above would be reflected in the performance values of the consulting division and make your comments giving possible reasons. **(06 Marks)**

**(Total 20 Marks)**

End of Section B

End of Part II

End of Question Paper