INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

Spring (August) 2012 Examinations

Wednesday, the 29th August 2012

FUNDAMENTALS OF COST AND MANAGEMENT ACCOUNTING – (S-201)

STAGE-2

Time Allowed: 2 Hours 45 Minutes | **Maximum Marks: 90** | **Roll No.:**

(i) Attempt all questions.
(ii) Answers must be neat, relevant and brief.
(iii) In marking the question paper, the examiners take into account clarity of exposition, logic of arguments, effective presentation, language and use of clear diagram/ chart, where appropriate.
(iv) Read the instructions printed inside the top cover of answer script CAREFULLY before attempting the paper.
(v) Use of non-programmable scientific calculators of any model is allowed.
(vi) DO NOT write your Name, Reg. No. or Roll No. anywhere inside the answer script.
(vii) Question No.1 – "Multiple Choice Question" printed separately, is an integral part of this question paper.
(viii) **Question Paper must be returned to invigilator before leaving the examination hall.**

Marks

Q. 2 **(a)** Define a cost accounting system. What are the benefits of a cost accounting system to management? **07**

(b) Based on budgeted production level of 90,000 units for the year ending June 30, 2012, a manufacturing company worked out the following estimated unit costs for their product, while fixing a selling price of Rs. 600 per unit:

Particulars	Rs. per unit
Direct material cost	157.50
Direct labour cost	120.00
Factory overhead:	
• Fixed	75.00
• Variable	30.00
Selling & administrative expenses:	
• Fixed	60.00
• Variable	90.00
Total	532.50

The company during the year could actually manufacture 60,000 units. The entire production was, however, sold at the price of Rs. 600 per unit. There was no inventory of any kind at the beginning or end of the year.

Required:

Work out the following:

(i) Actual conversion cost per unit during the year. **02**

(ii) Cost of goods sold statement in total and per unit for the year ended June 30, 2012. **03**

(iii) Income statement for the year ended June 30, 2012. **04**

Marks

Q. 3 (a) The following information is available for valuation of inventory as on June 30:

June	1	Beginning balance	800	units	@	Rs. 15/unit
	4	Purchased	200	units	@	Rs. 18/unit
	7	Purchased	200	units	@	Rs. 20/unit
	18	Issued	400	units		
	25	Purchased	300	units	@	Rs. 21/unit
	28	Issued	500	units		

Required:

Calculate the cost of materials used and the value assigned to the June 30 inventory by each of the following perpetual inventory costing methods:

(i) First-in, first-out (FIFO). **06**

(ii) Last-in, first-out (LIFO). **04**

(b) The employees' record of a company for the week ended July 31 shows the following details of its four (4) employees:

Employee	Clock No.	Job No.	Hours Worked	Production Pieces	Hourly Rate (Rs.)	Piece Rate (Rs.)
Arshad	15	79	40	960	–	3.00
Badar	16	–	46	–	70.00	–
Chohan	17	74	40	–	58.00	–
Danish	18	–	40	–	72.00	–

The company operates 40 hours per week and pays 50% in addition to normal rates for overtime. Additional information is as under:

(i) Badar works in the storeroom issuing materials. Danish is the supervisor, and others worked directly on special orders as noted.

(ii) Deduction @ 6.5% would be made for each employee on account of employees children education fund.

(iii) An advance against salary of Rs. 1,000 was made to Arshad on July 26.

(iv) A 2% deduction is to be made from each employee's wage for the company's employee health and hospital benefit plan.

(v) Income tax @ 10% is deducted at source.

Required:

Prepare the payroll sheet for the week showing each employee's and total (of 4 employees) gross pay, deductions, and net pay. **10**

Q. 4 (a) Khair Company's factory overhead rate is Rs. 30 per hour. Budgeted overhead for 3,000 hours per month is Rs. 160,000 and at 7,000 hours is Rs. 240,000. Actual factory overhead for the month is Rs. 180,000, and actual hours worked are 5,000.

Required:

Calculate the following:

(i) Variable overhead rate (portion) in overhead rate. **02**

(ii) Budgeted fixed overhead. **02**

(iii) Normal volume or normal capacity hours. **04**

(iv) Applied factory overhead. **02**

Marks

(b) A manufacturing company produces a product in its three producing departments. The following quantitative data has been made available:

	Department		
	A	**B**	**C**
Production Data (kgs):			
Started into production	20,000	13,500	8,000
Transferred to next department	13,500	8,000	
Transferred to finished goods storeroom			5,250
In process (100% materials, $^{1}/_{3}$ labour and overhead)	6,000	4,500	
In process (100% materials, $^{2}/_{3}$ labour and overhead)			2,250

Lost units are normal and apply to all production.

Required:

Workout the following for each of the three departments:

(i) A quantity schedule. **06**

(ii) An equivalent production schedule. **06**

Q. 5 (a) Following information is related to the cost of a job:

Materials		Labour	
Qty	Rs./ unit	Hours	Rs./ hour
50	20	20.00	40
55	24	10.00	44
60	22	15.00	36
54	18	22.50	32
55	16	20.00	30

Factory overhead is Rs. 36 per labour hour, marketing expense is 25% and administrative expense is 20% of total factory cost. Margin is 50% of total cost.

Required:

Prepare a Job Order Cost Sheet showing clearly the followings:

(i) total factory cost. **06**

(ii) total marketing and administrative expenses. **01**

(iii) profit margin. **01**

(iv) sales amount. **01**

(b) What is standard cost card? Prepare a specimen standard cost card putting imaginary figures. **07**

Marks

Q. 6 (a) Following data is collected from the records of Beta Company Limited for a month in respect of manufacturing a product Gamma. Two (2) units of material used and the predetermined purchase price for material is Rs. 60 per unit. Labour required to produce one (1) unit is 4 hours and the labour rate per hour is Rs. 100.

The actual production for Gamma was 10,000 units and consumption of materials, labour worked and wages paid were as follows:

Material used 22,000 units @ Rs. 70 per unit

Labour worked 42,000 hours, were paid @ Rs. 125 per hour.

Required:

Calculate the following:

(i) Materials quantity (usage) variance. **02**

(ii) Materials price variance. **02**

(iii) Labour time variance. **02**

(iv) Labour rate variance. **02**

(b) Alpha Limited produces a product with the following cost at the current output of 25,000 units at selling price of Rs. 240 per unit:

Particulars	Rs.
Production cost (variable)	120 per unit
Selling cost (variable)	40 per unit
Fixed cost	750,000 per annum

The company is of the view that by hiring an improved machine for production, the variable cost of production would decrease to Rs. 100 per unit. The hiring cost of the machine would be Rs. 450,000.

Required:

Calculate the following:

(i) Breakeven point in units and rupees before and after hiring of new machine. **04**

(ii) The number of units that must be sold to achieve the same profit as being currently earned, if the new machine is hired. **04**

THE END