

**SCHOOL OF ACCOUNTING AND BUSINESS
BSc. (APPLIED ACCOUNTING) GENERAL / SPECIAL DEGREE
PROGRAMME 2013/14**

**YEAR I SEMESTER I (Group B)
END SEMESTER EXAMINATION – AUGUST 2014**

AFM 10230 Fundamentals of Management Accounting

Date : 02nd August 2014
Time : 5.30p.m. – 8.30 p.m.
Duration : Three (03) hours

Instructions to Candidates:

- This paper consists of three sections (A, B and C).
- Answer any five (5) questions in all, selecting the Question No. 1 of Section A, any three (3) questions from section B and one (1) question from Section C.
- Please submit answers to Question No. 1 of Section A separately.
- The total marks for the paper is 100.
- The marks for each question are shown in brackets.
- Use of calculator is allowed.
- Answers should be written neatly and legibly.

Section A

Answer ALL Questions

Question No. 01

Circle the number in the answer sheet, corresponding the most appropriate answer to the following questions.

1. The main purpose of management accounting is producing information for;
 - a. Managers' controlling decisions
 - b. Managers' reporting needs
 - c. Fulfilling managers' accountability to investors
 - d. Decisions by investors

(02 Marks)

2. Management accounting focuses mainly on;
 - a. Cost and revenue of business operations
 - b. Profit from business operations
 - c. Cost of business operations
 - d. None of the above

(02 Marks)

3. Which one of the following is applicable for management accounting?
 - a. Historical information
 - b. Current information
 - c. Non auditable information
 - d. Auditable information

(02 Marks)

4. Which one of the followings can be considered to be an example for indirect cost of operations?
- a. Cost of raw materials
 - b. Cost of labour
 - c. Overtime premium paid for workers
 - d. Quality inspection cost paid at the rate of Rs. 18 per unit

(02 Marks)

5. Which one of the followings cannot be considered a fixed cost for a period;
- a. Managers' salaries
 - b. Machine operator's basic salary
 - c. Rent and rates
 - d. Machinery depreciation

(02 Marks)

6. Activity Based Costing (ABC) aims at addressing the issue of;
- a. Resource availability for production
 - b. Resource control in production
 - c. Resource consumption by production
 - d. None of the above

(02 Marks)

7. A cost driver is;
- a. Useful in determining cost of a cost unit
 - b. Used in calculating the over or under absorption of overheads
 - c. Needed in determining the amount of resource consumption by activities
 - d. Needed in determining activities of a cost unit

(02 Marks)

8. Which one of the followings could be considered a step in a managerial decision making process;
- a. Preparation of management reports
 - b. Analyzing variance between expected and actual results
 - c. Saving performance data for the future comparison purpose
 - d. Motivating for better performance

(02 Marks)

9. Which one of the followings is irrelevant for a managerial decision on choosing among alternatives;
- a. Opportunity cost
 - b. Sunk cost
 - c. Incremental cost
 - d. None of the above

(02 Marks)

10. A company sells its product at Rs. 100 per unit. The cost of a cost unit is constituted of material cost of Rs. 26, direct labour cost of Rs. 40, variable overheads of Rs. 18 and fixed overheads Rs. 10. Currently it produces and sells 10,000 units per month making a profit of Rs. 125,000. It considers that if an advertising campaign is launched at a cost of Rs. 40000 sales would be increased by Rs 120,000. The resulting increase in profit would be;
- a. Rs. 2,400
 - b. Rs. 19,200
 - c. Rs. 7,200
 - d. None of the above

(02 Marks)

(10x2Marks = Total 20 Marks)

Section B

Answer any three (3) questions out of four (4) questions given

Question No. 2

The production system of a firm has 3200 hours of rated capacity and has budgeted to use 3000 hours during the month of August 2014. Operating time per unit of production is 15 minutes. Direct material cost per unit is Rs. 40 while direct Labour cost per hour is Rs. 180. Overheads are assumed to incur at same rates as were during the recent past. Overheads for May and June 2014 are Rs. 610,000 and 590,000 respectively. The firm had operated 2800 and 2700 hours during May and June respectively. A unit is sold at Rs. 120 each.

- i. Determine the overhead absorption rates for variable and fixed overheads.
- ii. Determine the full cost per unit applicable for the month of August.
- iii. Determine the full cost and marginal cost per unit separately.
- iv. Show that full cost approach is not adequate to provide relevant information to make decisions and how Marginal Cost can work for more relevant information.
- v. What is the minimum capacity level for this company to operate to survive without incurring losses?
- vi. Under the planned production volume for August, what is the margin of safety the company has?
- vii. What would be the projected profit under this volume for the month of August?
- viii. In order to get the profit increased by 10% what is the volume to be operated for the month?

(8x2.5 Marks = Total 20 Marks)

Question No. 03

A company operates its production through four processes namely Process 1, Process 2 Process 3 and Process 4. At the end of the Process 3 the production is separated into product A and product B for final processing. The following information is relevant for the process 3 for the month of June 2014.

The stock of work in progress brought forward from the last month is 3100 units and its value is comprised of Material (1) cost of Rs. 62,000, Material (2) Rs. 41,000 and conversion cost of Rs. 82,000. In relation to Material (2) and conversion cost these units are completed by 30% and 60% respectively.

The process has received 28,000 units from the Process 2 at the cost of Rs. 29.40 per unit during June.

The followings are the costs incurred during the month.

4200 Kgs of raw materials @ Rs. 96.90 per Kg.

Conversion cost Rs. 681,600

Normal loss of the process is 2% but no scraps are saleable.

At the end of the month of June, Process 3 had transferred 27,000 units, out of which 20,000 units to Process A and the balance to Process B.

At the end of Process 3 the saleable value per unit of A is Rs. 300 and B is Rs. 200.

You are required:

To calculate cost per unit of product A and B transferred from Process 3 assuming First in First out (FIFO) basis is adopted in processing work-in-progress.

(Total 20 Marks)

Question No. 04

A company produces a product and the cost is ascertained using ABC approach. Following is the analysis of budgeted overheads for the month of August 2014

Set-up	Rs. 146,400
Material handling	Rs. 120,000
Quality inspection	Rs. 60,000
Packing	Rs. 126,000
Other	Rs. 216,000
Total	Rs. 668,400

Cost drivers to each activity are identified as follows

Set-up	No of set-ups
Material handling	No of batches
Quality inspection	No of production units
Packing	Every 10 units
Other	Labour hour

Followings are the planned operations for the month

No. of units to produce	24,000 units
No of units per batch	2000
No of set-ups per batch	2
Labour hours per unit	1/4

You are required to

- (i) Calculate the overhead cost per unit

(15 Marks)

(ii) Calculate Return On Sale of the product assuming Direct Cost of Rs. 92.15 per unit and selling price of Rs. 150 per unit of the product.

(5 Marks)

(Total 20 Marks)

Question No. 05

Star Company Ltd. is a garment producer and accounts are kept in an integrated system. Following data are relevant to the month of July 2014.

Balance b/f as at 01.07.2014

Raw materials	Rs. 320,000
Work-in-progress	Rs. 138,000
Finished goods	Rs. 460,000

Transactions during the month;

Raw materials purchased Rs. 1,300,000

Raw materials returned to suppliers Rs. 110,000

Raw materials issued to production Rs. 960,000 (of which Rs. 80,000 for raw materials issued for purposes of overheads)

Labour cost

Direct wages Rs. 680,000 (Including Rs. 110,000 for overtime premium)

Other salaries and wages Rs. 390,000 (Including Rs. 95,000 for overtime premium)

Payment for other overheads Rs. 410,000

Allocation for overheads - Production 60%

Administration 30%

Marketing 10%

Absorption of overheads for production cost 60% of prime cost

Sales for the period Rs. 1,850,000

Balances as at 31.07.2014

Question No. 07

Write short note on **any four** of the followings

- i. Relevant Cost
- ii. Irrelevant Cost
- iii. Indirect Cost
- iv. Split-off Point
- v. Cost centers

(Total 20 Marks)