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

YEAR I SEMESTER I (Group A)
END SEMESTER EXAMINATION – FEBRUARY 2015

AFM 10230 Fundamentals of Management Accounting

Date	:	12th February 2015
Time	:	9.00 a.m. – 12.00 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 scientific calculator is allowed.
- Answers should be written neatly and legibly.

Section A

Question No. 01

Select the most appropriate answer to each of the following questions given and mark the relevant answer in the sheet separately provided.

I. 'Managers are accountable to investors of the business'. The meaning of the term 'accountability' in this statement is;

a. Responsibility to keep accounts
b. Responsibility to earn a fair return on investment
c. Obligation to explain their own action taken during a particular period
d. Obligation to respond to queries by investors

II. In a broader meaning the term 'accounting' mainly involves

a. Measuring and reporting
b. Planning and variance reporting
c. Financial obligations
d. None of the above

III. Management accounting can be differentiated from financial accounting referring to ;

a. Financial or nonfinancial nature of information
b. Auditability of information
c. Consistency of information
d. Relevance of information

IV. Which one of the following is an example for indirect cost?

a. Basic salary paid to a machine operator
b. Salary of a helper of the production department
c. Payment for patent rights
d. Freight charges for raw materials purchased

V. Estimated overheads for the year 2014 was Rs. 1,800,000 while actual overheads were Rs. 1,950,000. Estimated number of labour hours for the same period was 90,000 while actual was 92,000hrs. What had been the overhead absorption rate for the year 2014?

a. Rs. 19.57 per labour hour
b. Rs. 20.00 per labour hour
c. Rs. 21.67 per labour hour
d. Rs. 21.20 per labour hour

VI. Which one of the following is considered to be a drawback of conventional overhead absorption?

a. Difficulty in calculation
b. Too many assumptions behind it
c. Ignorance of resource consumption for the cost unit
d. Focus on the resource availability

VII. Which one of the following is a step in ascertaining cost under 'Activity Based Costing (ABC)' approach?

a. Identifying cost centers
b. Identifying an appropriate absorption base
c. Identifying cost units
d. Identifying cost drivers

VIII. Job costing is adopted in a situation where

a. Production units are heterogeneous
b. Production units are homogeneous
c. Production is carried out in batches
d. Production is in larger volumes

IX. Normal process loss is considered to be

a. Borne by producer
b. Born by consumer
c. Written off as a loss
d. Recoverable through sale of scraps

X. The stock of Working Progress of a process is assessed at Weighted Average Cost in an operational situation where;

   a. Work is completed on a random basis
   b. Work is completed in the order of their arrival
   c. Work is completed on customer request
   d. None of the above

(Total 20 Marks)

Section B

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

Question No. 02

A furniture manufacturing company is maintaining an integrated cost accounting system. The following balances were appearing as at 01.04.2013

Raw material stock Rs. 1,280,000
Work in progress stock Rs. 190,000
Finished goods stock Rs. 1,380,000

The following transactions took place during the year up to 31.03.2014
Raw material purchases Rs. 1,950,000
Wages paid – Direct Rs. 1,680,000
Indirect Rs. 590,000
Raw materials issued for overheads Rs. 160,000
Raw materials returned during the year Rs. 120,000
Other overheads Rs. 1,900,000
Sales for the year Rs. 6,200,000 and the gross profit margin is 20%
Stocks as at 31.03.2014
Finished goods Rs. 1,220,000
Work in progress Rs. 1,360,000

You are required to prepare

i. Stores ledger control account for the year

(06 Marks)

ii. Work in progress control account for the year

(08 Marks)

iii. Finished goods control account for the year

(06 Marks)

(Total 20 Marks)

Question No. 03

Bite (Pvt.) Ltd. is a medium scale manufacturing organization involved in producing a standard computer part. Managers have estimated annual overheads for the year 2015 to be Rs. 1,720,000, out of which 60% is fixed. Due to the competition they have decided to reduce the price per unit from Rs. 3,200 per casing to Rs. 2,900 in order to get the production volume increased by 10%. Direct material cost and labour cost per unit are estimated to be Rs. 1,200 and Rs. 600 respectively. Total number of labour hours to be operated during 2015 is 72,000 and a unit of production requires 4 labour hours. The management of Bite wants to know;

i. Any implication on the total contribution and profit for the year from the decision to change the price.

(06 Marks)

ii. Under the projected sales volume what is the margin of safety for the company?

(08 Marks)

iii. If the company incurs additional Rs. 200,000 on advertising expecting an increase in sales by 5000 additional units for the year, is it acceptable?

(06 Marks)

(Total 20 Marks)

Question No. 04

A company is interested in adopting Activity Based Costing (ABC) approach in assigning costs to its product. It has been identified that a unit of the product requires the following activities with their cost drivers as well as estimated overheads.

Activity	**Cost Driver**	**Estimated overheads (Rs.)**
Receiving	No. of units	210,000
Set up	No. of set ups	70,000
Machining	No. of hours	308,000
Invoicing	No. of orders	120,000

The following other details are provided.

Total production and sale	280,000 units
No of units per batch of production	4,000 units
No of batches per set up	2
Total production hours per year	28,000 hrs.
Estimated No. of order for the year	240
Direct cost per unit	Rs. 35.00

You are required to calculate the cost per unit of the product.

(Total 20 Marks)

Question No. 05

A company operates its production as a continued process involving mainly three processes namely forming process, fabricating process and finishing process. Following information is given in relation to the fabricating process for the year ended 31.03.2014.

Opening stock of work in progress – 6000 units and 70% completed in conversion cost. This consists of Rs. 80,000 material cost, Rs. 32,000 of labour cost and Rs. 18,000 overheads.
During the year materials transferred from forming section amounted to 68,000 units at Rs. 15 each.

Labour cost and overheads incurred are Rs. 350,000 and Rs. 200,000 respectively.
Normal process loss is 4% and scraps are salable at Rs. 10 per unit.

As at 31.03.2014 there were 10,000 units remaining incomplete and they are 60% complete in conversion cost.

i. Prepare a process cost account for the Fabrication process for the year ended 31.03.2014 using Weighted Average Cost method.

(10 Marks)

ii. Explain the situation where the use of FIFO method is appropriate.

(05 Marks)

iii. Explain how normal and abnormal process losses are considered in costing products.

(05 Marks)

(Total 20 Marks)

Section C

Answer any one (1) question out of two (2) questions given

Question No. 06

i. Explain two main managerial layers of any organisation and their accountability structures.

(06 Marks)

ii. Explain the need of accounting to each layer.

(04 Marks)

iii. Explain uses of management accounting information to managers in controlling a business.

(10 Marks)

(Total 20 Marks)

Question No. 07

Write short notes on any four of the following

i. Overhead Absorption Rate (OAR)
ii. Cost unit
iii. Cost assignment
iv. Indirect cost
v. Service cost centers

(05 Marks x 4=Total 20 Marks)