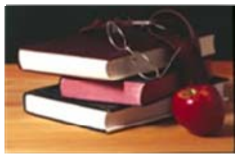

FINALTERM EXAMINATION
Spring 2010
MGT402- Cost & Management Accounting (Session - 3)
Solved by Mehreen Humayun
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Time: 90 min
Marks: 69

Question No: 1 (Marks: 1) - Please choose one
All of the following are the features of fixed costs EXCEPT:

► Although fixed within a relevant range of activity level but are relevant to a decision making when it is avoidable.
► Although fixed within a relevant range of activity level but are relevant to a decision making when it is incremental.
► Generally it is irrelevant
► **It is relevant to decision making under any circumstances**

Question No: 2 (Marks: 1) - Please choose one
Information concerning Department B of Baba Company for the month of April is as follows:

	Units	Material Cost (Rs.)
Work in process opening	7,000	21,000
Units started in April	68,000	210,800
Units completed and transferred out	66,000	
Work in process ending	9,000	

All materials are added at the beginning of the process.
Required: Using the average cost method. How much be the cost (rounded to two places) per equivalent unit for materials?

► Rs. 3.00
► Rs. 3.10
► **Rs. 3.09**
► Rs. 3.05

Question No: 3 (Marks: 1) - Please choose one
A typical factory overhead cost is:

► Distribution
► Internal audit
► **Compensation of plant manager**
► Design

Question No: 4 (Marks: 1) - Please choose one
An average cost is also known as:

► Variable cost
► **Unit cost**
► Total cost
► Fixed cost

Question No: 5 (Marks: 1) - Please choose one
Period costs are:

► Expensed when the product is sold
► Included in the cost of goods sold
► **Related to specific period**
► Not expensed

Question No: 6 (Marks: 1) - Please choose one
While calculating the EOQ, number of orders is calculated by:

► **Dividing required unit by ordered quantity**
► Multiplying the required units with ordered quantity
► Multiplying the ordered quantity with cost per order
► Multiplying the required units with cost per order

Question No: 7 (Marks: 1) - Please choose one
Which of the following best describe piece rate system?

► **The increased volume of production results in decreased cost of production**
► The increased volume of production in minimum time
► Establishment of fair standard rates
► Higher output is a result of efficient management

Question No: 8 (Marks: 1) - Please choose one
The term Cost apportionment is referred to:

► The costs that can not be identified with specific cost centers.
► **The total cost of factory overhead needs to be distributed among specific cost centers but must be divided among the concerned**

department/cost centers.

► The total cost of factory overhead needs to be distributed among specific cost centers.

► None of the given options

Question No: 9 (Marks: 1) - Please choose one

Examples of industries that would use process costing include all of the following EXCEPT:

► **Beverages**

► Food

► Hospitality

► Petroleum

Question No: 10 (Marks: 1) - Please choose one

Which of the following loss is not included as part of the cost of transferred or finished goods, but rather treated as a period cost?

► Operating loss

► **Abnormal loss**

► Normal loss

► Non-operating loss

Question No: 11 (Marks: 1) - Please choose one

Hyde Park Company produces sprockets that are used in wheels. Each sprocket sells for Rs. 50 and the company sells approximately 400,000 sprockets each year. Unit cost data for the year follows:

Direct material	Rs. 15	
Direct labor	Rs. 10	
Other cost: Manufacturing Distribution	Fixed Rs. 5 Rs. 4	Variable Rs. 7 Rs. 3

Required: Identify the unit cost of sprockets under direct costing

► Rs. 44

► Rs. 37

► **Rs. 32**

► Rs. 35

Question No: 12 (Marks: 1) - Please choose one

When production is equal to sales, which of the following is TRUE?

► **No change occurs to inventories for either use absorption costing or variable costing methods**

► The use of absorption costing produces a higher net income than the use of variable costing

► The use of absorption costing produces a lower net income than the use of variable costing

► The use of absorption costing causes inventory value to increase more than they would though the use of variable costing

Question No: 13 (Marks: 1) - Please choose one

Selling price per unit is Rs. 15, total variable cost per unit is Rs. 9, and total fixed costs are Rs. 15,000 of "XIT". What is the breakeven point in units for "XIT"?

► 3,000 units
► 1,000 units
► 1,667 units
► **2,500 units**

Question No: 14 (Marks: 1) - Please choose one

Éclair Ltd manufactured three products,JP,1,JP2,JP,3 with the following cost of raw material 10,000 kg ,cost Rs. 24,000 and conversion cost is Rs. 28,000.

Out-Put	Production,Kg	sales price, per Kg
JP,1	4,000	11
JP,2	3,000	10
JP,3	1,000	26

Process costs are apportioned on a sales value basis.
Required: What was the apportioned cost for JP1.

► **Rs. 22,880**
► Rs. 15,600
► Rs. 13,520
► Rs. 52,000

Question No: 15 (Marks: 1) - Please choose one

While constructing a Break even chart, the gap between sales line and variable cost line shows which of the following?

► Fixed cost

► Break even point
► **Contribution margin**
► Variable cost

Question No: 16 (Marks: 1) - Please choose one
All of the following compose cost of goods sold EXCEPT:

► Raw material
► Labor
► **Capital**
► Factory overhead

Question No: 17 (Marks: 1) - Please choose one
If a firm is using activity-based budgeting, the firm would use this in place of which of the following budgets?

► Direct labor budget
► Direct materials budget
► Revenue budget
► **Manufacturing overhead budget**

Question No: 18 (Marks: 1) - Please choose one
Amount of Depreciation on fixed assets will be fixed in nature if calculated under which of the following method?

► **Straight line method**
► Reducing balance method
► Some of year's digits method
► Double declining method

Question No: 19 (Marks: 1) - Please choose one
A budget that requires management to justify all expenditures, rather than just changes from the previous year is referred to as:

► Self-imposed budget
► Participative budget
► Perpetual budget
► **Zero-based budget**

Question No: 20 (Marks: 1) - Please choose one
Which of the following sentences is the best description of zero-base budgeting?

► Zero-base budgeting is a technique applied in government budgeting in order to have a neutral effect on policy issues

► **Zero-base budgeting requires a completely clean sheet of paper every year, on which each part of the organization must justify the budget it requires**

► Zero-base budgeting starts with the figures of the previous period and assumes a zero rate of change

► Zero based budgeting is an alternative name of flexible budget

Question No: 21 (Marks: 1) - Please choose one
Which of the following is NOT a relevant cost to decision making?

► Opportunity costs
► Relevant benefits
► Avoidable costs
► **Sunk costs**

Question No: 22 (Marks: 1) - Please choose one
Which of the following statement is NOT true about overhead applied rates?

► They are predetermined in advance for each period
► They are used to charge overheads to product
► **They are based on actual data for each period**
► None of the given options

Question No: 23 (Marks: 1) - Please choose one
Equivelant units of production:

► Is a measure of productive activity.

► **Represent work done on units still in process as well as units completed during the period**

► Are used as basis for computing per unit cost in most process cost accounting systems

► All of the given options

Question No: 24 (Marks: 1) - Please choose one
If, Total fixed cost Rs. 2,000, Variable manufacturing cost Rs. 4,000, Variable selling cost Rs. 3,000 and Sales Rs. 10,000 then what is the amount of margin available to recover fixed cost?

► Rs.6,000
► **Rs.3,000** Margin = Sales – (All variable costs)
► Rs.7,000

► Rs.8,000

Question No: 25 (Marks: 1) - Please choose one
Which one of the following is the Traditional approach for costing?

► Contribution approach
► **Absorption costing approach**
► Decision making approach
► Marginal costing approach

Question No: 26 (Marks: 1) - Please choose one
Under which of the following, all cost of production is considered as product cost, regardless of whether they are variable or fixed in nature?

► **Absorption costing**
► Direct costing
► Marginal costing
► Variable costing

Question No: 27 (Marks: 1) - Please choose one
Which of the following is TRUE in case of positive contribution margin?

► Profit will occur
► **Both profit and loss are possible**
► Profit will occur if the fixed expenses are greater than the contribution margin
► A loss will occur if the contribution margin are greater than the fixed expenses

Question No: 28 (Marks: 1) - Please choose one
Which of the following is NOT considered as external factor while preparing the sales budget?

► **Availability of materials or supplies**
► Governmental rules
► Market fluctuations
► Competitor's success

Question No: 29 (Marks: 1) - Please choose one
What would be the attitude of the management in treating Sunk costs in decision making?

► A periodic investment of cash resources that has been made and should be relevant for decision making

► **It is a past cost which is not directly relevant in decision making**
- ► Management will treat it as variable cost each time in decision making
- ► None of the given options

Question No: 30 (Marks: 1) - Please choose one
Which of the following item is NOT included in FOH cost budget?

- ► Indirect material cost
- ► Indirect labor cost
- ► Power and fuel
- ► **Direct material cost**

Question No: 31 (Marks: 1) - Please choose one
Which of the following budget includes an item of indirect labor cost?

- ► **FOH cost budget**
- ► Direct labor cost budget
- ► Direct material cost budget
- ► None of the given options

Question No: 32 (Marks: 1) - Please choose one
Which of the following budget includes the item of depreciation of plant?

- ► Direct labor cost budget
- ► Variable FOH cost budget
- ► **Fixed FOH cost budget**
- ► Direct material cost budget

Question No: 33 (Marks: 1) - Please choose one
Mr. Aslam is running his own personal Financial services business. He has been offered a job for a salary of Rs. 45,000 per month which he does not availed. Rs. 45,000 will be considered as:

- ► Sunk Cost
- ► **Opportunity cost**
- ► Avoidable cost
- ► Historical cost

Question No: 34 (Marks: 1) - Please choose one
After the development of master budget, which of the following ratio ('s) can be used to compare actual performance with budgeted performance?

- ► Activity ratio
- ► Capacity ratio
- ► Efficiency ratio
- ► **All of the given options**

Question No: 35 (Marks: 1) - Please choose one
Which of the following statement is TRUE about historical cost?

- ► It is always relevant to decision making
- ► **It is always irrelevant to decision making**
- ► It is always an opportunity cost
- ► It is always realizable value

Question No: 36 (Marks: 1) - Please choose one
Which of the given cost does not become the part of cost unit?

- ► **Advertising expenses**
- ► Direct labor cost
- ► Factory overhead cost
- ► Cost of raw material

Question No: 37 (Marks: 1) - Please choose one
The main difference between the profit center and investment center is:

- ► Decision making
- ► Revenue generation
- ► Cost incurrence
- ► **Investment**

Question No: 38 (Marks: 1) - Please choose one
Budgeted Factory overhead at two activity levels is as follows for the period.

	Activity level	Budgeted factory overhead
Low	10,000 Hours	Rs. 40,000
High	50,000 Hours	Rs. 80,000

Required: Identify variable rate with the help of above mentioned data.

- ► Rs. 4.00 per hour
- ► Rs. 1.60 per hour
- ► **Rs. 1.00 per hour**
- ► Rs. 2.00 per hour

Variable rate = Change in budgeted FOH / Change in activity level

Variable rate = (50,000 – 10,000) / (80,000 – 40,000) = 40,000/40,000 = Rs 1 per hour

Question No: 39 (Marks: 1) - Please choose one
Which of the given cost is NOT required to prepare Cost of Production Report?

- **Period cost**
- Material cost
- Labour cost
- Factory overhead cost

Question No: 40 (Marks: 1) - Please choose one
Identify the FOH rate on the basis of machine hour?

Budgeted production overheads	Rs.280,000
actual machine hours	70,000 hours
Actual production overheads	Rs.295,000

- **Rs. 4.00**
- Rs. 4.08
- Rs. 4.210
- Rs. 4.35

Question No: 41 (Marks: 1) - Please choose one
Which of the given will NOT be included for the calculation of equivalent units of material under weighted average costing method?

- **Opening work in process units**
- Closing work in process units
- Unit completed and transferred out
- None of the given options

Question No: 42 (Marks: 1) - Please choose one
The basic assumption made in direct costing with respect to fixed costs is that:

- Fixed cost is a controllable cost
- Fixed cost is a product cost
- Fixed cost is an irrelevant cost
- **Fixed cost is a period cost**

Question No: 43 (Marks: 1) - Please choose one

ABC Company makes a single product which it sells for Rs. 20 per unit. Fixed costs are Rs. 75,000 per month and product has a profit/volume ratio of 40%. In that period actual sales were Rs. 225,000.
Required: Calculate ABC Company Break Even point in Rs.

► **Rs.187, 500**
► Rs.562, 500
► Rs. 1,500,000
► None of the given options

Question No: 44 (Marks: 1) - Please choose one
The little Rock Company shows Break even sales is Rs. 40, 500 and Budgeted Sales is Rs. 50,000. Identify the Margin of safety ratio?

► **19%**
► 81%
► 1.81%
► Required more data to calculate

Margin of safety = budgeted sales – breakeven sales = 50,000 – 40,500 = 9,500
Margin of safety Ratio = Margin of safety / budgeted sales * 100
= 9,500/50,000 * 100 = 19%

Question No: 45 (Marks: 1) - Please choose one
Income Statement Budget include(s) all of the following EXCEPT:

► Selling & distribution expenses budget
► General & administrative expenses budget
► Financial charges budget
► **Cash budget**

Question No: 46 (Marks: 1) - Please choose one
Deficit budget can be compensated through:

► Expenses
► **Borrowings**
► Revenues
► Investments

Question No: 47 (Marks: 1) - Please choose one
ABC Company is preparing Cash Budget for its refuse disposal department. Which of the following would NOT included in Cash Budget?

► Capital cost of a new collection vehicle

► **Depreciation of the incinerator**
► Sales salaries paid
► Material purchased

Question No: 48 (Marks: 1) - Please choose one
A machine cost Rs. 60,000 five years ago. It is expected that the machine will generate future revenue of 40,000. Alternatively, the machine could be scrapped for Rs. 35,000. An equivalent machine in the same condition cost 38,000 to buy now.
Required: Identify the realizable value with the help of given data.
► Rs. 60,000
► Rs. 40,000
► **Rs. 35, 000**
► Rs. 38,000

Question No: 49 (Marks: 3)
Product "A" has a contribution of Rs. 8 per unit; a contribution margin ratio is 50% and requires 4 machine hours to produce. Product "B" has a contribution of Rs. 12 per unit; a contribution margin ratio is 40% and requires 5 machine hours to produce. If the constraint is machine hours to produce, then which one of the both product a company should produce and sell? Support your answer with suitable workings.

Solution:

Product A:

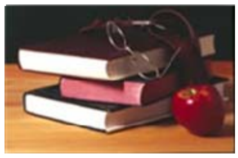
Contribution Margin=8
Machine Hrs.=4
8/4=Rs2.

Product B:

Contribution Margin=12
Machine Hrs. =5
12/5=Rs.2.4

Conclusion:
Hence company has to produce product B.

Question No: 50 (Marks: 3)
Define the term capacity and volume in budgeting?



Question No: 51 (Marks: 5)
An automobile manufacturing company anticipates the following unit sales during the first four months of 2008.

January	20000
February	30000
March	25000
April	40000

The company maintains its ending finished goods inventory at 70% of the following month's sale. The january1 finished goods inventory will be 14000 units.

Required: Prepare a production budget for January through March

Solution:

Production Budget

	January	**February**	**March**
Opening Inventories	14,000	21,000	17,500
Production	27,000	26,500	35,500
Sales	-20,000	-30,000	-25,000
Closing Inventories	21,000	17,500	28,000

Question No: 52 (Marks: 5)
Golden Company sells its product for Rs. 42 per unit. The company's unit product cost based on the full capacity of 400,000 units is as follows:

Direct materials	Rs. 8
Direct labor	10
Manufacturing overhead	12
Unit product cost	Rs. 30

A special order offering to buy 40,000 units has been received from a foreign distributor. The only selling costs that would be incurred on this order would be Rs. 6 per unit for shipping. The company has sufficient idle capacity to manufacture the additional units. Two-thirds of the manufacturing overhead is fixed and would not be affected by this order. Assume that direct labor is an avoidable cost in this decision. In negotiating a price for the special order, calculate the minimum acceptable selling price per unit?

Solution:

Minimum acceptable selling price

Selling costs=6
Variable Manufacturing overhead=4
Direct materials=8
Total cost=18Rs.

Question No: 53 (Marks: 5)

Data concerning P Co's single product is as follows:

	Rs./unit
Selling price	7.00
Variable cost	3.00
Fixed production cost	4.00
Fixed selling cost	1.00

Budgeted production and sales for the year are 12,000 units.
Required: What will be the company's new Break Even point, to the nearest whole unit if it is expected that the variable production cost per unit will each increase by 10% and fixed cost will rise by 25% and other things remains same.
Note: it is necessary to show complete working .

Solution:

Old Break even Quantity

60,000/4=15,000

Company's new Break Even

Sales=7
Variable Cost=3.3
Contribution Margin=3.7
Fixed cost=5×12,000=60,000
60,000*25%=15,000
Total fixed cost=60,000+15,000=75,000
75,000/3.7=20,270units.

Company's new Break Even point=20,270