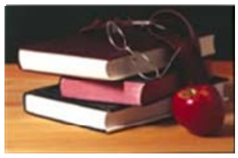

FINALTERM EXAMINATION
Spring 2010
MGT402- Cost & Management Accounting (Session - 4)

Solved by Mehreen Humayun
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Time: 90 min
Marks: 69

Question No: 1 (Marks: 1) - Please choose one
Cost of finished goods inventory is calculated by:

- ► Deducting total cost from finished goods inventory
- ► **Multiplying units of finished goods inventory with the cost per unit**
- ► Dividing units of finished goods inventory with the cost per unit
- ► Multiplying total cost with finished goods inventory

Question No: 2 (Marks: 1) - Please choose one
Assuming no returns outwards or carriage inwards, the cost of goods sold will be equal to:

- ► Opening stock Less purchases plus closing stock
- ► Closing stock plus purchases plus opening stock
- ► **Sales less gross profit**
- ► Purchases plus closing stock plus opening stock plus direct labor

Question No: 3 (Marks: 1) - Please choose one
All of the following are essential requirements of a good wage system **EXCEPT**:

- ► Reduced labor and overhead costs
- ► Reduced per unit variable costs
- ► Increased production
- ► **Increased operating costs**

Question No: 4 (Marks: 1) - Please choose one
EOQ is a point where:

- ► **Ordering cost is equal to carrying cost**
- ► Ordering cost is higher than carrying cost
- ► Ordering cost is lesser than the carrying cost
- ► Total cost is maximum

Question No: 5 (Marks: 1) - Please choose one
Which of the following is a reason for the overtime to be incurred?

- ► Make up for lost time

► Produce more of the product than anticipated
► Increase efficiency of the workers
► **Both for make up of lost time and produced more product than anticipated**

Question No: 6 (Marks: 1) - Please choose one
Which of the following is the best define a by-product?

► A by-product is a product arising from a process where the wastage rate is higher than a defined level
► **A by-product is a product arising from a process where the sales value is insignificant by comparison with that of the main product or products**
► A by-product is a product arising from a process where the wastage rate is unpredictable
► A by-product is a product arising from a process where the sales value is significant by comparison with that of the main product or products

Question No: 7 (Marks: 1) - Please choose one
Good Job Plc makes one product which sells for Rs. 80 per unit. Fixed costs are Rs. 28,000 per month and marginal costs are Rs. 42 per unit. What sales level in units will provide a profit of Rs. 10,000?

► 350 units
► 667 units
► **1,000 units**
► 1,350 units

Question No: 8 (Marks: 1) - Please choose one
Variable costing is also known as:

► Direct Costing
► Marginal Costing
► **Both Direct Costing & Marginal Costing**
► Indirect Costing

Question No: 9 (Marks: 1) - Please choose one
Cost volume Profit analysis (CVP) is a behavior of how many variables?

► 2
► 3
► **4**
► 5

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

If the selling price and the variable cost per unit both decrease at10% and fixed costs do not change, what is the effect on the contribution margin per unit and the contribution margin ratio?

► Contribution margin per unit and the contribution margin ratio both remains unchanged
► Contribution margin per unit and the contribution margin ratio both increases
► **Contribution margin per unit decreases and the contribution margin ratio remains unchanged**
► Contribution margin per unit increases and the contribution margin ratio remains unchanged

Question No: 11 (Marks: 1) - Please choose one
All of the following are true **EXCEPT**:

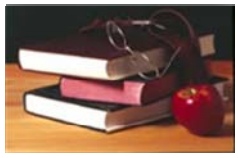
► Profit + Fixed cost + Variable cost = Sales
► Profit + Fixed cost = Sales – Variable cost
► Contribution margin – Fixed cost = Profit
► **Profit + Fixed cost = Sales + Variable cost**

Question No: 12 (Marks: 1) - Please choose one
Which of the following statements is **CORRECT**?

► **A by-product is a product produced at the same time as other products which has a relatively low volume**
► Since a by-product is a saleable item it should be separately costed in the process account and should absorb some of the process costs
► Cost incurred prior to the point of separation are known as common or joint costs
► A by-product is a product produced at the same time as other products which has a relatively high volume compared with the other products

Question No: 13 (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: 14 (Marks: 1) - Please choose one
On a Cost-Volume-Profit chart (break-even graph), where are the total fixed costs shown?

- ► At the point where the sales line intersects the cost line
- ► **At the point where the sales line below the total cost line**
- ► At the point where the total cost line intersects the cost line
- ► At the point where the total cost line intersects the volume line

Question No: 15 (Marks: 1) - Please choose one
In which of the following way the last month closing inventory figure will be treated?

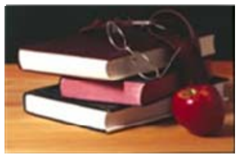
- ► Will not be carried forward
- ► **As opening inventory of current month**
- ► As closing inventory of current month
- ► As units sold for the same months

Question No: 16 (Marks: 1) - Please choose one
Production cost budget is based on which of the following cost?

- ► Market value
- ► **Predetermined cost**
- ► Future value
- ► Fair value

Question No: 17 (Marks: 1) - Please choose one
Extent Incorporated estimates its direct labor costs at 2 hours per unit at an average cost of Rs. 12 per hour. The budgeted direct labor cost to produce 27,000 units of product is:

- ► Rs. 324,000
- ► Rs. 470,000
- ► Rs. 540,000
- ► **Rs. 648,000**



Question No: 18   (Marks: 1)   - Please choose one

Which of the following is true for the manufacturing overhead budget?

► Provides a schedule of all costs of production other than direct materials and direct labor
► Includes both variable and fixed costs associated with overhead
► Depreciation has to be deducted as a non-cash expense in order to determine the level of cash required for overhead
► **All of the given options**

Question No: 19   (Marks: 1)   - Please choose one

A job needs 3,000 actual labor hours to be completed. It is expected there will be 25% idle time. If the wage rate is Rs. 12.50 per hour, what is budgeted labor cost for the job?

► Rs. 26,000
► Rs. 37,500
► **Rs. 50,000**
► Rs. 42,000

Question No: 20   (Marks: 1)   - Please choose one

Costs that have been incurred include which of the following?

► Only opportunity costs
► Costs that have already been paid
► Costs that have been committed
► **Both costs that have already been paid and committed**

Question No: 21   (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**
► Rs.7,000
► Rs.8,000

Question No: 22   (Marks: 1)   - Please choose one

If units started in process are 25,000, units still in process are 5,000 and degree of completion is 100% materials & 40% conversation cost. Which of the following is Equivalent Production quantity of FOH cost?

► 25,000 units
► **22,000 units**
► 15,000 units

► 15,000 units

Question No: 23 (Marks: 1) - Please choose one
A company has budgeted sales of Rs. 48,000, breakeven sales of Rs. 35,000 and actual sales of Rs. 40,000 during a particular period. What will be the margin of safety?

► Rs. 8,000
► Rs. 13,000
► **Rs. 5,000**
► Rs. 21,000

Question No: 24 (Marks: 1) - Please choose one
A company ABC has budgeted sales of Rs. 8,000 and breakeven sales of Rs. 5,000 during a particular period whereas the actual sales amounted to Rs. 7,000. What will be the margin of safety ratio?
► **None of the given options**
► 37.5%
► 40%
► 60%

Question No: 25 (Marks: 1) - Please choose one
Which of the following is the result of intersection between the Sales revenue line and Total cost line?

► **Break-even point**
► Projected sale
► Total sale
► Net sale

Question No: 26 (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: 27 (Marks: 1) - Please choose one
If:
Cost of opening finished goods Rs. 2,000
Cost of goods to be produced Rs. 6,000
Operating expenses Rs. 1,000.
Which of the following is the cost of goods available for sale?

- **Rs. 8,000**
- Rs. 4,000
- Rs. 7,000
- Rs. 9,000

Question No: 28 (Marks: 1) - Please choose one
Cash inflow in cash budgeting comes from:

- Commission paid
- All of the given options
- **Collection on accounts receivable**
- Purchase of securities

Question No: 29 (Marks: 1) - Please choose one
A company produced a desired level of product 'A' in 5,500 Hours. The standard hours required to produce the same product are 5,000 Hours. What is the amount & nature of variance?

- 500 hours (Favorable)
- **500 hours (Unfavorable)**
- 5,000 hours (Favorable)
- 5,000 hours (Unfavorable)

Question No: 30 (Marks: 1) - Please choose one
Which of the following is used in decision making?

- Contribution margin approach
- Differential cost approach
- Fixed cost approach
- **Both Contribution margin and Differential cost approach**

Question No: 31 (Marks: 1) - Please choose one
A contract will be rejected in which of the following condition?

- **If it reduces the contribution margin**
- If it increases the contribution margin
- If it reduces the fixed cost
- None of the given options

Question No: 32 (Marks: 1) - Please choose one
The cost of telephone bill of the factory is treated as:

- Fixed cost

► Variable cost
► **Semi variable cost**
► Direct labor cost

Question No: 33 (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: 34 (Marks: 1) - Please choose one
Given data that:

Work in Process Opening Inventory	Rs. 20,000
Work in Process Closing Inventory	10,000
Finished goods Opening Inventory	30,000
Finished goods Closing Inventory	50,000
Cost of goods sold	190,000

What will be the value of cost of goods manufactured?

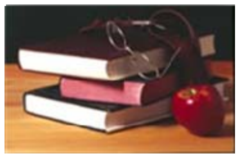
► Rs. 200,000
► **Rs. 210,000**
► Rs. 220,000
► Rs. 240,000

Question No: 35 (Marks: 1) - Please choose one
Taylor's Differential Piece Rate Plan based on _____________piece rates is fixed.

► **Two**
► Three
► Four
► Five

Question No: 36 (Marks: 1) - Please choose one
Depreciation of building expense is an example of factory overhead which is apportioned on the basis of:

► Capital value
► Departmental payroll
► **Area in square feet or cubic feet**



► Number of workers

Question No: 37   (Marks: 1)   - Please choose one

If Budgeted FOH for actual volume is Rs. 678,925 and Actual factory overhead is Rs. 648,925 then difference of both will be:

► Unfavorable Spending variance of Rs. 30,000
► **Favorable Spending variance of Rs. 30,000**
► Unfavorable Capacity variance Rs. 30,000
► Favorable Capacity variance of Rs. 30,000

Question No: 38   (Marks: 1)   - Please choose one

Job ABC requires 380 active hours to complete job. It is assumed that there will be no idle time. The wage rate per hour is Rs. 10. The labor cost of job ABC is:

► Rs. 390
► Rs. 370
► **Rs. 3800**
► Cannot be determined with the help of given data

Question No: 39   (Marks: 1)   - Please choose one

Production process may result into spoiled or lost units. This lost unit may result into which of the following category/categories?

► **Normal loss**
► Abnormal loss
► Unavoidable loss
► All of the given options

Question No: 40   (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: 41   (Marks: 1)   - Please choose one

Total cost of beginning inventory	Rs.37,000
Unit cost of material	Rs. 4.00
Unit cost of labour & FOH	Rs. 8.00
Units transferred out	60,000
Ending work in process	10,000

Required: Identify the total cost of the units completed and transferred out during the month.

► **Rs. 720,000**
► Rs. 240,000
► Rs. 480,000
► Rs. 12,000

Question No: 42 (Marks: 1) - Please choose one
Which of the given budget tells the financial effects?

► Production budget
► Production cost budget
► Sales budget in units
► **None of the given options**

Question No: 43 (Marks: 1) - Please choose one
Cash budget is prepared in the form of:

► **Receipt and payment**
► Debit and credit
► Asset and liability
► Cost and expenses

Question No: 44 (Marks: 1) - Please choose one
With reference to decision making, a business which has entered a binding contract to spend money in future, this incurred cost will be considered as which of the following?

► Historic cost
► **Committed cost**
► Binding cost
► Sunk cost

Question No: 45 (Marks: 1) - Please choose one
If you are currently employed as a cost & management accountant in manufacturing company and you are also thinking over to start your own business. In considering whether or not to start your own business, your current salary level would be:

► A sunk cost
► An incremental cost
► An irrelevant cost
► **An opportunity cost**

Question No: 46 (Marks: 1) - Please choose one
Differential cost may be:

► Incremental cost
► Avoidable cost
► Sunk cost
► **Both Incremental cost and Avoidable cost**

Question No: 47 (Marks: 1) - Please choose one
The Original budget at normal capacity Rs. 80,000 and Flexible budget at actual capacity Rs. 63,400. Identify the Volume Variance with the help of given data.

► Rs. 16,600 Favorable balance
► **Rs. 16,600 Unfavorable balance**
► Rs. 143,400 Favorable balance
► Rs. 143,400 Unfavorable balance

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)
Nomi Limited budgets to make 4,000 units of product X an estimates that the standard material cost per unit will be Rs. 6. In fact 3,800 units are produced at a material cost of Rs. 24,700. For the purpose of budgetary control, what will be the actual and budgeted figure of material cost?

Solution:

Budgeted figure for material=4,000units×6 per unit=24,000
Actual cost for 3,800 units=24,700
Budgeted cost for 3,800 units=38,00×6=22,800
Unfavorable variance=1,900

Question No: 50 (Marks: 3)
What is a principle budget factor?
Answer:

Principle budget factor is a limit factor which helps in the determination of planned activity. Hence it is a limited factor which cannot be increased to bring it to the level of other capacity areas.

Question No: 51 (Marks: 5)
Hussain Corporation annually produces 10,000 units of assembly part number 206. An outside supplier has offered to manufacture the part at Rs. 9 per unit. If Hussain Corporation decides to buy the part, they will be able to rent the existing area for Rs. 8,000 per year. Listed below are Hussain's total costs to produce part 206:

	Rs.	Total (Rs.)
Direct material	2.50	25,000
Direct Labor	4.00	40,000
Variable overhead	2.25	22,500
Fixed Overhead	0.75	7,500
Total	**9.50**	**95,000**

Assuming that no additional costs are incurred in purchasing the part, what should be the opportunity cost for Hussain Corporation if it will buy? Support your answer with computations.

Solution:

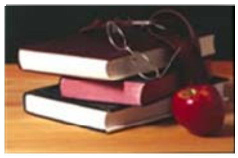
Outside supplier is ready to supply at Rs.9
Our manufacturing cost=9.50
Saving=0.50×10,000 Units=5,000
Space will be rented out@8,000/year
Opportunity cost =13,000

Question No: 52 (Marks: 5)
Classify the following expenses as **Financial or Administrative expense** by filling the appropriate boxes?

Expenses	Nature of expense
Salaries of employee	?
Interest paid on debts	?
Utility Bills	?
Depreciation of office equipment	?
Interest paid on debentures	?

Solution:

Expenses	Nature of expense
Salaries of employee	Administrative
Interest paid on debts	Financial
Utility Bills	Administrative
Depreciation of office equipment	Administrative
Interest paid on debentures	Financial



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