

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

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

If Selling price per unit Rs. 15.00; Direct Materials cost per unit Rs. 3.50; Direct Labour cost per unit Rs. 4.00 Variable Overhead per unit Rs. 2.00; Budgeted fixed production overhead costs are Rs. 60,000 per annum charged evenly across each month of the year. Budgeted production costs are 30,000 units per annum. What is the Net profit per unit under Absorption costing method.

- ▶ Rs. 9.50
- ▶ Rs. 15.00
- ▶ Rs. 11.50
- ▶ **Rs. 3.50**

Question No: 2 (Marks: 1) - Please choose one

Which of the following cost is linked with the calculation of cost of inventories?

- ▶ Product cost
- ▶ Period cost
- ▶ **Both product and period cost**
- ▶ Historical cost

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Question No: 3 (Marks: 1) - Please choose one

If, Sales = Rs. 800,000

Markup rate = 25% of cost

What would be the value of Gross profit?

- ▶ Rs. 200,000
- ▶ **Rs. 160,000**
- ▶ Rs. 480,000
- ▶ Rs. 640,000

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Question No: 4 (Marks: 1) - Please choose one

Which of the following is **TRUE** when piece rate system is used for wage determination?

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▶ Under this method of remuneration a worker is paid on the basis of time taken by him to perform the work

▶ **Under this method of remuneration a worker is paid on the basis of production**

▶ The rate is expressed in terms of certain sum of money for total production

▶ The rate is not expressed in terms of certain sum of money for total production

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

Which of the following manufacturers is most likely to use a job order cost accounting system?

- ▶ A soft drink producer
- ▶ A flour mill
- ▶ Tobacco manufacturing concern
- ▶ **A builder of offshore oil rigs**

Question No: 6 (Marks: 1) - Please choose one

	Materials Costs (Rs.) Costs (Rs.)	Conversion Costs (Rs.)
Work-in-process, May 1	46,000	78,000
Current costs (May)	<u>92,000</u>	<u>124,000</u>
Total cost	138,000	202,000

If the equivalent units of production under FIFO costing were 40,000 and 50,000 for materials and conversion costs, respectively, what are the costs per equivalent unit for Material and Conversion?

- ▶ Rs. 1.15, Rs.1.56
- ▶ Rs.1.76, Rs.1.94
- ▶ Rs. 2.30, Rs. 2.48
- ▶ **Rs. 3.45, Rs. 4.04**

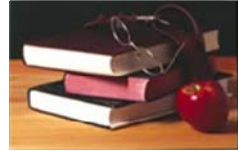
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Question No: 7 (Marks: 1) - Please choose one

Jones, Industries uses process costing system. In October, the finishing department had 30,000 (20% as to conversion) units in beginning work-in-process, 45,000 (40% as to conversion) units in ending inventory and had 95,000 units transferred in from the previous department. Material is added at the end of the process and conversion costs are added uniformly throughout the process.

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Required: If Jones uses weighted average, what are the equivalent units of production for direct material and conversion costs?

- ▶ Material 125,000 units Conversion cost 45,000 units
- ▶ **Material 125,000 units Conversion cost 98,000 units**
- ▶ Material 125,000 units Conversion cost 18,000 units
- ▶ Material 125,000 units Conversion cost 80,000 units

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Question No: 8 (Marks: 1) - Please choose one

The salary of factory clerk is treated as:

- ▶ Direct labor cost
- ▶ **Indirect labor cost**
- ▶ Conversion cost
- ▶ Prime cost

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

Average consumption x Emergency time is a formula for the calculation of:

- ▶ Lead time
- ▶ Re-order level
- ▶ Maximum consumption
- ▶ **Danger level**

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Question No: 10 (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: 11 (Marks: 1) - Please choose one

A worker is paid Rs. 0.50 per unit and he produces 18 units in 7 hours. Keeping in view the piece rate system, the total wages of the worker would be:

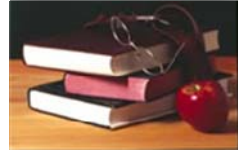
- ▶ **18 x 0.50 = Rs. 9**
- ▶ 18 x 7 = Rs. 126
- ▶ 7 x 0.5 = Rs. 3.5
- ▶ 18 x 7 x 0.50 = Rs. 63

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

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Which of the following concept is used in absorption costing?

- ▶ Matching concept
- ▶ Cost concept
- ▶ Cash concept
- ▶ **None of the given options**

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

When closing stock is over valuate, what would its effect on profit?

- ▶ Can not determined with given statement
- ▶ **It will increase the profit**
- ▶ It will decrease the profit
- ▶ No effect on profit

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

A firm sells bags for Rs. 14 each. The variable cost for each unit is Rs. 8. What is the contribution margin per unit?

- ▶ **Rs. 6**
- ▶ Rs. 12
- ▶ Rs. 14
- ▶ Rs. 8

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

Which of the following is **NOT** true? A small company's breakeven point:

- ▶ Occurs where its revenue equals its expenses
- ▶ Shows entrepreneurs' minimum level of activity required to keep the company in operation
- ▶ Is the point at which a company neither earns a profit nor incurs a loss
- ▶ **Total contribution margin equals total variable expenses**

Question No: 16 (Marks: 1) - Please choose one

Keller Co. sells a single product for Rs. 28 per unit. If variable costs are 65% of sales and fixed costs total Rs. 9,800, the break-even point will be:

- ▶ 15,077 units
- ▶ 18,200 units
- ▶ 539 units
- ▶ **1,000 units**

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Question No: 17 (Marks: 1) - Please choose one

In process costing, a joint product is

- ▶ A product which is later divided in to many parts
- ▶ **A product which is produced simultaneously with other products and is of similar value to at least one of the other products**
- ▶ A product which is produced simultaneously with other products but which is of a greater value than any of the other products

- ▶ A product produced jointly with another organization

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

The by-product of Soap is:

- ▶ **Glycerin**
- ▶ Meat Hides
- ▶ Fats
- ▶ Flour Bran

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

While constructing production budget, numbers of units manufactured are calculated by which of the following formula?

- ▶ **Number of units to be sold + closing units – opening units**
- ▶ Number of units to be sold - closing units + opening units
- ▶ Number of units to be sold - closing units – opening units
- ▶ Number of units to be sold + closing units + opening units

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

If B Limited shows required production of 120 cases of product for the month, direct labor per case is 3 hours at Rs. 12 per hour. Budgeted labor costs for the month should be:

- ▶ Rs. 1,360
- ▶ Rs. 1,440
- ▶ **Rs. 4,320**
- ▶ Rs. 5,346

Question No: 21 (Marks: 1) - Please choose one

Which of the following best describe a flexible budget?

- ▶ A budget of variable production costs only

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- ▶ A budget which shows the costs and revenues at different levels of activity
- ▶ A budget which is prepared using a computer spreadsheet model
- ▶ **A budget which is updated with actual costs and revenues as they occur during the budget period**

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

Which of the following is a process by which managers analyze options available to set courses of action by the organization?

- ▶ Heuristics method
- ▶ **Decision making**
- ▶ The Delphi technique
- ▶ Systematic error

Question No: 23 (Marks: 1) - Please choose one

Which of the following is not true about differential costs?

- ▶ It is a broader concept than variable cost as it takes into account additional fixed costs caused by management decisions
- ▶ With the passage of time and change in situation, differential costs will vary
- ▶ **The difference in cost between buying them from outside or make them in the company is differential cost, irrelevant for decisions**
- ▶ They are extra or incremental costs caused by a particular decision

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Question No: 24 (Marks: 1) - Please choose one

In short term decision making which of the following is not concerned?

- ▶ Cash flows
- ▶ Time value of money
- ▶ Pay back period
- ▶ **Capital investments**

Question No: 25 (Marks: 1) - Please choose one

In one off contracts, a contract will probably be accepted if:

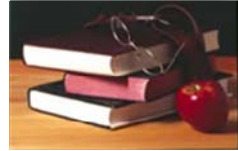
- ▶ It increases contribution margin and decreases profit
- ▶ **It increases both contribution margin and profit**
- ▶ It reduces contribution margin and increases profit
- ▶ It reduces both contribution margin and profits

Question No: 26 (Marks: 1) - Please choose one

Which one of the following is the Traditional approach for costing?

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- ▶ Contribution approach
- ▶ **Absorption costing approach**
- ▶ Decision making approach
- ▶ Marginal costing approach

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Question No: 27 (Marks: 1) - Please choose one

What would be the margin of safety ratio based on the following information?

- ⌚ Sales price = Rs. 100 per unit
- ⌚ Variable cost = Rs. 25 per unit
- ⌚ Fixed cost = Rs. 50 per unit

- ▶ **25%**
- ▶ 33.333%
- ▶ 66.666%
- ▶ 75%

Question No: 28 (Marks: 1) - Please choose one

Which of the following step is the 3rd step towards budgeting process?

- ▶ Forecasting
- ▶ Determination of Principle budget factor
- ▶ Decision about the removal of constraints
- ▶ **Construction of budget on agreed basis**

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Question No: 29 (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

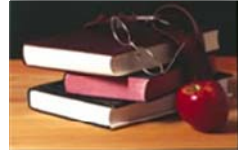
Question No: 30 (Marks: 1) - Please choose one

Ahmed Corporation has sales of Rs. 500,000 for the period. The selling expenses are estimated as 12% of sales. The gross profit for the period is amounting to Rs. 150,000.

Calculate the amount of selling expenses for the period?

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- ▶ **Rs. 60,000**
- ▶ Rs. 45,000
- ▶ Rs. 90,000
- ▶ Rs. 210,000

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Question No: 31 (Marks: 1) - Please choose one

Which of the following is NOT suitable action taken by the firm to overcome the problem of cash shortage during a period?

- ▶ Overdraft arrangement
- ▶ Selling off assets
- ▶ Extension in credit period with suppliers
- ▶ **Issue of bonus shares**

Question No: 32 (Marks: 1) - Please choose one

Which of the following would **NOT** lead to an increase in net cash flow?

- ▶ Larger sales volume
- ▶ Higher selling price
- ▶ Reduced material cost
- ▶ **Charging of lower depreciation**

Question No: 33 (Marks: 1) - Please choose one

All of the following are features of a relevant cost **EXCEPT**:

- ▶ They affect the future cost
- ▶ They cause an increment in cost
- ▶ **Relevant cost is a sunk cost**
- ▶ They affect the future cash flows

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Question No: 34 (Marks: 1) - Please choose one

Which of the following statement is **TRUE** about the relevant cost?

- ▶ It is a sunk cost
- ▶ **It is an opportunity cost**
- ▶ It do not affect the decision making process
- ▶ All costs are relevant

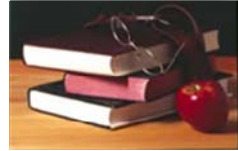
Question No: 35 (Marks: 1) - Please choose one

Fixed budget is based on which of the following?

- ▶ **Normal capacity**
- ▶ Actual capacity
- ▶ Theoretical capacity

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- ▶ None of the given options

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Question No: 36 (Marks: 1) - Please choose one

An ice factory has a contribution margin of Rs. 450,000 and fixed cost for the year amounts to Rs. 495,000. The fixed cost of Rs. 215,000 can be eliminated if the operations are to be closed during winter season. An extra sale of Rs. 25,000 is also expected during winter season. What would be the decision?

- ▶ **Operations would be closed during winter season**
- ▶ Operations would be continued as we are having extra sales in winter season
- ▶ Operations would be partially closed
- ▶ None of the given options

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

In decision making all costs already incurred in past should always be:

- ▶ Ignored
- ▶ Considered
- ▶ Partially ignored
- ▶ **Partially considered**

Question No: 38 (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

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

In cost accounting, unavoidable loss is charged to which of the following?

- ▶ Factory over head control account
- ▶ **Work in process control account**
- ▶ Marketing overhead control account
- ▶ Administration overhead control account

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

Meerick Differential Piece Rate Plan based on _____ piece rates is fixed.

- ▶ Two
- ▶ **Three**
- ▶ Four
- ▶ Five

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

Which of the given is (are) the method(s) of measurement of Labor Turnover?

- ▶ Separation method
- ▶ Flux method
- ▶ Replacement method
- ▶ **All of the given options**

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Question No: 42 (Marks: 1) - Please choose one

Cost of production report is also known as:

- ▶ **Process cost sheet**
- ▶ Job order cost sheet
- ▶ Balance sheet
- ▶ Material requisition sheet

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

Which of the given units can never become part of first department of Cost of Production Report?

- ▶ Units received from preceding department
- ▶ Units transferred to subsequent department
- ▶ **Lost units**
- ▶ Units still in process

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Question No: 44 (Marks: 1) - Please choose one

Details of the process for the last period are as follows:

Put into process	5,000 kg
Materials	Rs. 2,500
Labor	Rs.700
Production overheads	200% of labor

Normal losses are 10% of input in the process. The out put for the period was 4,200 Kg from the process. There was no opening and closing Work- in- process. What were the units of abnormal loss?

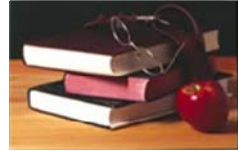
- ▶ 500 units
- ▶ **300 units**
- ▶ 200 units
- ▶ 100 units

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Question No: 45 (Marks: 1) - Please choose one

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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: 46 (Marks: 1) - Please choose one

If products/goods cannot sell at split off point then cost can be allocated on the basis of:

- ▶ **Hypothetical market value basis**
- ▶ Selling price ratio
- ▶ Income basis
- ▶ Cost basis

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Question No: 47 (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: 48 (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**

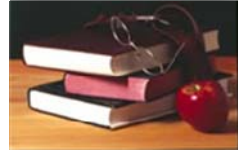
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Question No: 49 (Marks: 3)

A study has been conducted to determine if one of the departments of Mead Company should be discontinued. The contribution margin in the department is Rs. 150,000 per year. Fixed expenses charged to the department are Rs. 195,000 per year. It is estimated that Rs. 120,000 of these fixed expenses could be eliminated if the department is discontinued. Will it be favorable to discontinue department operations? Support your answer with suitable working.

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Solution:

Current situation:

Contribution Margin = 150,000 - 195,000 = 45,000 Loss

Upon discontinuing Fixed Cost will change from 195,000 to 75,000

Thus Loss = 75,000

Thus, we should not discontinue.

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Question No: 50 (Marks: 3)

The following information is available for Atlas Corporation to prepare a cash budget for the month of September:

- Cash on hand beginning of September Rs. 16,000
- Expected receipts in September Rs. 272,000
- Sales salaries paid Rs. 62,000
- Material purchases (all in cash) Rs. 190,000
- Depreciation Rs. 44,000

Required: Calculate ending cash balance in September. Also show complete working.

Solution:

Cash Budget for September

Opening balance	16,000
Add Receipts	
Expected receipts	<u>272,000</u>
	288,000
Less Payments	
Sales salaries	62,000
Material purchases	<u>190,000</u>
Total	252,000
Ending Balance	36,000

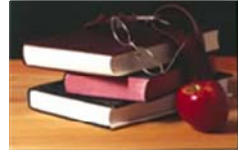
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Question No: 51 (Marks: 5)

The Carter Manufacturing Company estimates its production requirements to be 30,000 units for October, 38,000 units for November and 41,000 units for

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December. It takes 3 direct labor hours at a rate of Rs. 3 per hour to complete one unit.

Prepare direct Labor budget cost for the last quarter of the year.

Solution:

Direct Labor Budget Cost

Particulars	October	November	December
Units produced	30,000	38,000	41,000
Labor hour per unit	3	3	3
Total labor hours	90,000	114,000	123,000
Labor rate per hour	Rs.3	Rs.3	Rs.3
Total Labor cost	Rs. 270,000	Rs.342,000	Rs.369,000

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Question No: 52 (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

$$\text{Sales}=7$$

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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

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Question No: 53 (Marks: 5)

G incorporation a manufacturer of skin care products is considering dropping from its line Moisturizing Cream, which is currently losing money. Following information of G incorporation's three products are given below.

	Cleansers & Toners (Rs)	Moisturizing Cream (Rs)	Eye Care Creams (Rs)
Sales revenue	500,000	300,000	400,000
Less: Variable Cost	230,000	200,000	230,000
Contribution margin	270,000	100,000	170,000
Less: Fixed Cost:			
Separable cost	50,000	59,000	40,000
Common cost	106,000	60,000	85,000
Profit (loss)	114,000	(19,000)	45,000

Required: What do you think that G incorporation should discontinue the product line Moisturizing Cream? Support your answer with complete working.

Solution:

Currently loss= 19,000Rs.
 Upon discontinue common fixed cost=Rs.60, 000
 Upon discontinue Loss =60,000

So they should continue manufacturing Moisturizing Cream.

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