FINALTERM EXAMINATION
Fall 2009
MGT402- Cost & Management Accounting (Session - 3)

Solved by vuZs Team
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Time: 120 min
Marks: 84

Question No: 1 (Marks: 1) - Please choose one
All of the following are a part of Planning Process EXCEPT:
- ► Identifying the objectives
- ► Search for alternative actions
- ► Data gathering for alternatives
- ► **Selection of a fixed action**

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Question No: 2 (Marks: 1) - Please choose one
All of the following indicate the problems in traditional budget EXCEPT:
- ► **Programmes and activities involving wasteful expenditure are identified, resulting in unavoidable financial and other costs**
- ► Inefficiencies of a prior year are carried forward in determining subsequent years' levels of performance
- ► Managers are not encouraged to identify and evaluate alternate means of accomplishing the same objective
- ► Decision-making is irrational in the absence of rigorous analysis of all proposed costs and benefits

Question No: 3 (Marks: 1) - Please choose one
The chief financial officer is also known as the:
- ► Controller
- ► Staff accountant
- ► Auditor
- ► **Finance director**

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Question No: 4 (Marks: 1) - Please choose one
When purchases are added to raw material opening Inventory, we get the value of:
- ► Material consumed.
- ► **Material available for use.**
- ► Material needed.
- ► Raw material ending inventory.

Question No: 5 (Marks: 1) - Please choose one
For manufacturing entities inventories are classified into ---------- categories?

▶ One
▶ Two
▶ **Three**
▶ Four

For manufacturing entities inventories are classified into three categories:
1. Material and supplies inventory
2. Work in process inventory
3. Finished goods inventory

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

When prices are rising over time, which of the following inventory costing methods will result in the lowest gross margin?

▶ FIFO
▶ **LIFO**
▶ Weighted Average
▶ Cannot be determined

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

All of the following are unavoidable causes of labor turnover **EXCEPT**:

▶ Retirement and death leading to labor turnover
▶ Domestic responsibilities—to look after old parents
▶ Accident or illness rendering workers permanently incapable to work
▶ **Unfair methods of promotion and lack of promotions avenues**

Unavoidable Causes include:
a) Personal betterment of worker
b) Retirement and death leading to labor turnover
c) Domestic responsibilities—to look after old parents
d) Accident or illness rendering workers permanently incapable to work
e) Dismissal or discharge due to insubordination, negligence, inefficiency, etc.
f) Marriages, specially in case of women workers.

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

The term cost allocation is described as:

▶ **The costs that can be identified with specific cost centers.**
▶ 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.
▶ None of the given options

LESSON # 14
Cost Allocation: It refers to the costs that can be identified with specific cost centers.

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

Which of the following statement is true ragarding Repeated distribution method?

▶ The re-allocation continues until the numbers being dealt with become very small
▶ The re-allocation continues until the numbers being dealt with become very Large
▶ **The re-allocation continues until the numbers being dealt with become**

small

► None of the given options

LESSON # 15

Repeated distribution method: This method takes each service department in turn and re-allocates its costs to all departments which benefit. The re-allocation continues until the numbers being dealt with become very small.

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

Which of the following is **TRUE** regarding the use of blanket rate?

► **The use of a single blanket rate makes the apportionment of overhead costs unnecessary**

► The use of a single blanket rate makes the apportionment of overhead costs necessary

► The use of a single blanket rate makes the apportionment of overhead costs uniform

► None of the given options

LESSON # 15

The use of a single blanket rate makes the apportionment of overhead costs unnecessary since
the total production costs are to be used.

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

Which of the following is/are reported in production cost report?

► The costs charged to the department

► How the costs were assigned to the output?

► The equivalent units of production by the department

► **All of the given options**

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

In the process costing when labor is charged to production department no 1. What would be the journal entry Passed?

► **Payroll a/c
To W.I.P (Dept-I)**

► Payroll a/c
To W.I.P (Dept-II)

► W.I.P (Dept-I)
To Payroll a/c

► W.I.P (Dept-II)
To Payroll a/c

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

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

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

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

Total cost/total unites = unit cost
Material=138,000/40,000=3.45
Labor=202,000/50,000=4.05

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

In comparing common cost and joint cost:

► The terms can be correctly used interchangeably
► Both have the same objective of assigning production cost to cost center
► **They differ since common cost products or services have been obtained separately**
► Common cost is sometime used as Joint cost

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

Which of the following concept is used in absorption costing?

► Matching concept
► Cost concept
► Cash concept
► **None of the given options**

Question No: 16 (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

Sales=80
VC=42

CM=38
FC=28,000
New FC=28,000+10,000=38,000
38,000/38=1,000

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

Which of the following costs are treated as period costs under direct costing?

- ► Only direct cost
- ► **Fixed selling and administrative expenses**
- ► Fixed manufacturing overhead
- ► Both fixed manufacturing overhead and fixed selling and administrative expenses

Sales commissions and office rent are good examples of period costs. Both items are expensed on the income statement in the period in which they are incurred. Thus they are said to be period costs. Other examples of period costs are selling and administrative expenses.

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

Variable costing is also known as:

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

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

Cost volume Profit analysis (CVP) is a behavior of how many variables?

- ► 2
- ► 3
- ► **4**
- ► 5

LESSON# 29
CVP is a relationship of four variables:
Sales - Volume
Variable cost - Cost
Fixed cost - Cost
Net income - Profit

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

Which of the following costs do **NOT** change when the activity base fluctuates?

- ► Variable costs
- ► Discretionary costs
- ► **Fixed costs**
- ► Mixed costs

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

The break-even point is the point where:

- ► Total sales revenue equals total expenses (variable and fixed)

- ▶ Total contribution margin equals total fixed expenses
- ▶ Fixed cost plus Profit is equal to contribution margin
- ▶ **All of the given options**

Question No: 22 (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

Question No: 23 (Marks: 1) - Please choose one
Eclair 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 JP3.
- ▶ Rs. 52,000
- ▶ **Rs. 13,520**
- ▶ Rs. 15,600
- ▶ Rs. 22,880

Total cost of raw material	24,000
Total cost as per conversion cost	28,000
Total cost incurred	52,000

Apportioned Cost for JP3=(52000/1000)26,000 = 13,520

Question No: 24 (Marks: 1) - Please choose one
The little Rock Company shows fixed expenses of Rs. 12,150 and Margin of safety ratio is 25% and Break even sales is Rs. 40, 500. If contribution margin ratio is 30% what would be the actual sales?
- ▶ Rs. 40,500
- ▶ **Rs. 54,000**
- ▶ Rs. 12,150
- ▶ Rs. 4,050

Question No: 25 (Marks: 1) - Please choose one
All of the following are assumptions in constructing a Break even chart **EXCEPT**:

- ► There is no change of time value of money
- ► Price of cost factors remains constant
- ► Long term period will be considered
- ► **Cost is affected by volume**

Question No: 26 (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: 27 (Marks: 1) - Please choose one
Hogan Company plans to produce 5,000 wooden tables. Each table requires 10 bd. Ft. of lumber at a price of Rs. 2.50 per bd. Ft. The desired beginning and ending inventories of lumber are 10,000 and 20,000 board feet, respectively. The total direct materials purchase cost for lumber is:

- ► Rs. 100,000
- ► Rs. 12,500
- ► Rs. 175,000
- ► **Rs. 150,000**

Units=5,000*10=50,000
Opening stock + closing stock=50,000+20,000=70,000
70,000-10,000=60,000
60,000×2.50=150,000

Question No: 28 (Marks: 1) - Please choose one
Which of the following budgets provide information for preparation of the owner's equity section of a budgeted balance sheet?

- ► Sales budget
- ► Cash budget
- ► Capital expenditures budget
- ► **Budgeted income statement**

Question No: 29 (Marks: 1) - Please choose one
Which of the following is **NOT** example of a cash outflow?

- ► Cash drawings
- ► Purchase of new equipment
- ► Commission paid
- ► **Depreciation**

Question No: 30 (Marks: 1) - Please choose one
When using a flexible budget, what will occur to variable costs (on a per unit basis) as production increases?

► Variable costs are not considered in flexible budgeting
► Variable costs per unit will decrease
► **Variable costs per unit will remain unchanged**
► Variable costs per unit will increase

Question No: 31 (Marks: 1) - Please choose one
A relevant cost or benefit is one that will be affected by the decision. Which of the following should be regarded as relevant in the decision-making process?

► Fixed overheads
► Notional costs
► Sunk costs
► **Opportunity costs**

Question No: 32 (Marks: 1) - Please choose one
Decision making should be based on all of the following relevant costs features EXCEPT:

► Relevant Costs are future costs
► Relevant Costs are cash flows
► Relevant Costs are incremental costs
► **Relevant Costs are sunk costs**

Question No: 33 (Marks: 1) - Please choose one
In a make or buy situation with no limiting factors, which of the following would be the relevant costs for the decision?

► Opportunity costs
► **Differential costs between the two options**
► Sunk costs
► Implied costs

Question No: 34 (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: 35 (Marks: 1) - Please choose one
The following monthly data are available for the Boarder, Inc. and its only product: Unit sales price = Rs. 36 Unit variable expenses = Rs. 28 Total fixed expenses = Rs. 50,000 Actual sales for the month of May = 7,000 units. The margin of safety for the company for May was:

► Rs. 6,000

- **Rs. 27,000**
- Rs. 56,000
- Rs. 106,000

Sales=36
VC=28
CM=8
(8×7,000)=56,000
FC=50,000
Profit=6,000
Actual sales=7000×36=252,000
Break even sales=FC/CM per unit=50,000/8=6250
(6250×36)=225,000
MOS= Actual sales- Break even sales=252,000-225,000=27,000

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

Under perpetual Inventory system at the end of the year:

- **No closing entry passed**
- Closing entry passed
- Closing value find through closing entry only
- None of the above.

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

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

Materials	5,000 Kgs at 0.50 per Kg
Labor	Rs.700
Production overheads	200% of labor

Normal losses are 10% of input in the process. The out put for the period was 4,200Kg 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

5,000×10%=500
5,000-500=4500
42, 00-4500=300units.

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

A cost that has been incurred but cannot be changed by present or future decisions is called:

- **Sunk cost**
- Differential cost
- Opportunity cost

► Marginal cost

Question No: 39 (Marks: 1) - Please choose one
If an item of overhead expenditure is charged specifically to a single department this would be an example of:

► Apportionment
► **Allocation**
► Re-apportionment
► Absorption

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Question No: 40 (Marks: 1) - Please choose one
When By-product is to be recycled, which one of the following will be used for costing?

► Costing approach
► Sale approach
► **Expense approach**
► Asset approach

Question No: 41 (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%

Sales=100
VC=25
CM=75
FC=50
Profit=25
Margin of safety=BES-Actual sales=100-75=25
Margin of safety ratio=(25/100)×100=25%

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Question No: 42 (Marks: 1) - Please choose one
What is the starting point of variable cost line on a break even chart at zero production level?

► **It must start from origin**
► It might start from origin
► It does not start from origin
► Non of the given options

Question No: 43 (Marks: 1) - Please choose one
All of the following describe forecasting EXCEPT:

► It allows you to create budget amounts, and then track how well you are staying within those amounts

► **It is a projected cash flow for the future, based on scheduled transactions and estimated amounts**

► A prediction of customer demand used to calculate future inventory levels

► Predicting current and future market trends using existing data and facts

Question No: 44 (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: 45 (Marks: 1) - Please choose one

If estimated direct labour cost is Rs. 50,000 for producing 2,400 units then what is the amount of FOH cost if FOH cost is assumed as 50% of direct labor cost?

► **Rs. 25,000**

► Rs. 1,200

► Rs. 26,200

► Cannot be calculated

50,000×50%=25,000

Question No: 46 (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: 47 (Marks: 1) - Please choose one

Which of the following is the best example of a fixed administrative expense?

► **Rent of building used for office**

► Commission paid

► Repair and maintenance

► Stationery expense

Question No: 48 (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: 49 (Marks: 3)
Break even chart is the useful technique for showing relationship between costs, volume and profits. Identify the components of break even chart.

Question No: 50 (Marks: 3)
Briefly describes the importance of material budget.

Question No: 51 (Marks: 5)
Garrett Company sells hand-crafted furniture. One item it sells is a small table that sells for Rs. 30 per unit. The variable costs related to the table, including product and shipping costs, are Rs. 18 per unit. Total fixed costs for the company are Rs. 60,000. Assume the tables are the only product the company sells this year and **draw a CVP graph** to represent the company's sales and expenses. From this graph, compute the approximate breakeven point in rupees and units.

Question No: 52 (Marks: 5)
A textile company anticipates the following unit sales during the four months of 2008.

Months	April	May	June	July
Sales units	20,000	30,000	25,000	40,000

The company maintains its ending finished goods inventory at 60% of the following month's sale. The April1st, finished goods inventory will be 12,000 units.

Required: Prepare a production budget for second quarter of year.

Question No: 53 (Marks: 10)
The Midnight Corporation budget department gathered the following data for the third quarter:

	July	**August**	**September**
Projected Sales (units)	1,000	1,500	1,450
Selling price per unit (Rs.)	40	40	40
Direct material purchase requirement (units)	1,300	2,000	1,800
Purchase cost per unit materilal (Rs.)	20	20	20
Production units required to calculate labor cost	800	1,300	1100

Additional information

Direct labor hours	2 per complete unit

Direct Labor rate	Rs. 2 per direct labor hour
Fixed factory overhead	Rs. 500 per month including Rs. 200 depreciation
Variable factory overhead	Rs. 1.50 per direct labor hour
Selling and Admin expense	5% of sales

Net Income before tax is as follows:

Months	Rs.
July	6,000
August	10,000
September	8,000

All sales and purchases are for cash and all expenses are paid in the month incurred. Assuming that the opening cash balance on July 1st is Rs. 25,000 and tax rate is 40%,
Required:
Prepare cash budget for third quarter.

Question No: 54 (Marks: 10)
ABC company is currently deciding whether to undertake a new contract of 20 hours of labor will be required for the contract. The company currently producing product S the standard cost details of which are given below:

Standard Cost Card
Product S

	Rs/unit	
Direct Material	200	
Direct Labor	300	
	500	
Selling Price	700	
Contribution margin		200

Requirement:
1. What is the relevant cost of labor if the labor must be hired from outside the organization?
2. What is the relevant cost of labor if the company expects to have 5 hours spare capacity?
3. What is the relevant cost of labor if the labor is in a short supply