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

Time: 120 min
Marks: 84

Student Info	
ExamDate:	**2/22/2010 12:00:00 AM**

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

REF=
http://books.google.ae/books?id=8SaARYOflPIC&pg=PT11&lpg=PT11&dq=Planning+Process+in+cost+accounting&source=bl&ots=-h0SQf5NE7&sig=FHdSUmUe8lygUD2d3w4LYJYti58&hl=en&ei=lS4eTNK8Gd2VOOechLwM&sa=X&oi=book_result&ct=result&resnum=4&ved=0CCUQ6AEwAw#v=onepage&q=Planning%20Process%20in%20cost%20accounting&f=false

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

Ref = Page no 220

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

The chief financial officer is also known as the:

► Controller
► Staff accountant
► Auditor
► Finance director

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.

Ref = Page no 24

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

For manufacturing entities inventories are classified into ---------- categories?

► One
► Two
► Three
► Four

Ref = page no 16

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

Page no 42

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

Ref = Page no 96

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

Ref = page no 100

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
Ref = page no 104

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
Ref = page no 104

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
Ref = page no 13

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

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

Solution

Total cost / equivalent units produced ……… page no 135
138000 / 40000 = 3.45
202000 / 50000 = 4.04

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

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

Ref = page no 164

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

Solution

42*1000 = 42000
80 * 1000= 80000

42000 +28000=70000 – 80000 = - 10000

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

Ref = 109

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

Ref = www.valuebasedmanagement .net/methords_variable_costing.html

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

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

► 2
► 3
► 4
► 5

Ref = page no 179 sales,variable cost, fixed cost, net income

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

Ref = page no 197

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

Ref = 182 183

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
Ref = http://www.finance-lib.com/financial-term-joint-product.html

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

: Raw Material = 24000 / 1000 = 24
Conversion = 28000 / 1000 = 28
Total cost for JP3 = 52
: 52*1000
: = 52000

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

Ref =

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

Page 201

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

Page no 242

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

Page no 247

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

BUDGETED SALE = 7000 * 36 = 252000
VARIABLE = 7000 * 28 = 196000
FIXED = 50000
: SALE = 252000
LESS: VARIABLE = 196000
.CM = 56000
FIXED = 50000
PROFIT = 6000
BREAKEVEN SALE = 252000 - 6000
BREAKEVEN SALE = 246000
Budgeted sales – Break-even sales = Margin of safety
= 252000 – 246000=6000

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.
Page no 41

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

5000*10/100=500
5000- 4200 – 500 = 300

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

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%

margin ration of safety = Budgeted profit / Budgeted contribution margin * 100
b profit = profit/sales*100
b C = cm/sales *100
Sale = 100
Less: Varaible = 25
Contribution Margin = 75
Less:Fixed = 50
: Profit = 25
Budgeted Profit = 25 / 100 * 100
: Budgeted Profit = 25
Budgeted CM = 75 / 100 * 100
Budgeted CM = 75
Margin Ratio of Safety = 25 / 75 * 100 = 33.333

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

Page no 193

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

Page no 203

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

50000* 50 / 100 = 25000

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

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

Time: 120 min
Marks: 84

Student Info	
Center:	**OPKST**
ExamDate:	**3/1/2010 12:00:00 AM**

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

The contribution margin ratio is 30% for the Spice Co. and the breakeven point in sales is Rs. 150,000. If the company desires a target net income of Rs. 60,000, what would have to be the amount of actual sales?

► Rs. 200,000
► Rs. 350,000
► Rs. 250,000
► Rs. 210,000

150 000 *.3 = 45000
ye nikal aya CM
target profit = 60000
profit + CM
45000 + 60000 = 105 000
ye aa gai varaibale cost
105000/.3 = 350000
actual sales

Question No: 2 (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: 3 (Marks: 1) - Please choose one

All of the following are characteristics of Group Bonus Scheme **EXCEPT**:

► A standard time is set for the completion of a job
► If the time taken is greater than the time allowed, the workers in the group receive time wages
► If the time taken is less than the time allowed, the group receives a bonus on time saved
► **If the time taken is greater than the time allowed, the workers in the group receive time deductions for extra hours**

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

Superior started 80,000 gallons of paint. During the month the company completed 92,000 gallons and transferred them to the mixing department. Superior had 38,000 gallons in beginning inventory and 26,000 gallons in ending inventory.
Material is added at the beginning of the process and conversion costs are added evenly throughout the process.
Beginning WIP was 30% complete as to conversion costs and ending WIP was 20% complete as to conversion costs. The company uses a FIFO costing

The company uses a FIFO costing. The cost data for February follow:

Beginning inventory:
Direct materials Rs.22, 200
Conversion costs Rs. 44,000
Costs added this period:
Direct materials Rs. 150,000
Conversion costs Rs. 343,200
Required:
What was the cost of direct materials in ending inventory?

► Rs. 37,560
► Rs. 42,600
► **Rs. 45,550**
► Rs. 48,750

Solution
as the ending inventory only contained units which were put in the process and the opening units have already been transfered out so the unit cost will be 150000/80000 = 1.875 when multiplied with ending units 26000 gives us Rs. 48750 the cost of materials of ending inventory

Question No: 5 (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.

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

wip opening bal = 30000
transfered in = 95000
total 125000
transfered out
125000-45000=80000
is ka matlab he ke 80000 units transfered out ho gai
yani equivalent units for transfered out for conversion is 80 000
closing wip = 45000 x .4 = 18000
equivalent units for conv = 80000+18000=98000

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

An average cost is also known as:

► Variable cost

► Unit cost

► Total cost

► Fixed cost

Question No: 7 (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: 8 (Marks: 1) - Please choose one

The net profit or loss for a particular period of time is reported on which of the following?

► Statement of cash flows

► Statement of changes in owner's equity

► Income statement

► Balance sheet

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

Which of the following is correct?

► Units sold= Opening finished goods units + Units produced – Closing finished goods units

► Units Sold = Units produced + Closing finished goods units - Opening finished goods units

► Units sold = Sales + Average units of finished goods inventory

► Units sold = Sales - Average units of finished goods inventory

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

Which of the following is important requirement of the effective material control?

► There are proper storage facilities

► There is a proper authority that will regulate the supply of material

► The accounts should provide a running balance of the value of the materials on hand

► All of the given options

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

Material requisition is a document that supports the requirement of the material. This document is sent to store incharge and approved by:

► Store manager

► Production manager

► Supplier manager
► Purchase manager

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

The Process of cost apportionment is carried out so that:

► Cost may be controlled
► Cost unit gather overheads as they pass through cost centers
► Whole items of cost can be charged to cost centers
► **Common costs are shared among cost centers**

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

Which of the following is characteristic of a job order cost accounting system?

► It records manufacturing activities using a perpetual inventory system
► It tracks cost by job
► It is best suited for customized products
► **All of the given options**

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

A by product:

► **Is produced from material that would otherwise be of no value**
► Has a lower selling price than the main product
► Is created along with the main product, but its sales value does not cover its production cost
► Always produces a large amount of revenue than the main product

Page no 154

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

According to marginal costing concept, all fixed costs are considered as:

► **Period cost**
► Production cost
► Mixed cost
► Sunk cost

Lec on 27

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

Variable costing is also known as:

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

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

Blackhat Chimney Builders constructed 80 units during 1901. The total sales value for these 80 units was Rs. 460,000. Variable costs associated with each unit were Rs. 4,000 and the company's fixed costs for 1901 amounted to Rs. 50,000. How much was the per-unit contribution margin?

► Rs. 750
► Rs. 1,125
► **Rs. 1,750**
► Rs. 5,125

per unit sale = 460 000/80 = 5750
contribution margin per unit = 5750-4000=1750

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

Which of the following represents the calculation of contribution margin ratio?

► (Sales - Total Expenses) / Sales
► (Sales - Fixed Expenses) / Sales
► (Sales - Cost of Goods Sold) / Sales
► **(Sales - Variable Expenses) / Sales**

Page no 166 – 164

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

The by-product of oil and fuel is:

► Mobil oil and lubricating oils
► Kerosene oil and Asphalt and Tar
► Gasoline and Petroleum coke
► **All of the given**

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

Information concerning Label Corporation's Product A is as follows:

	Rs.
Sales price	300,000
Variable cost	240,000
Fixed Cost	40,000

Assuming that Label increased sales of Product A by 20%, the profit of the product A would be which of the following?

► Rs. 20,000
► **Rs. 24,000**
► Rs. 32,000
► Rs. 80,000

80000 is the correct answer..........

Sales	(300000*.20=60000+30000)	360000
Less Variable Cost		240000
Contribution margin		120000
Less: Fixed Cost		40000
Net Profit		80000

Question No: 21 (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

Sales – vc = cm = page no 193

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

If one would prepare a graph with a horizontal axis representing units of production and a vertical axis representing per-unit production cost, how would a line representing fixed production cost is drawn?

► As a horizontal line
► As a vertical line
► As a straight line sloping upward to the right
► As a straight line sloping downward to the right

Lec 32

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

All of the following are the objectives of budgeting EXCEPT:

► Maximization of sales
► Profit maximization
► Compete with competitors
► Increased cost

Page no 202

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

Production budget is an example of which of the following budget?

► **Functional budget**
► Master budget
► Cost of goods sold budget
► Sales budget

Page no 202

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

Consider the following data for the month of April:

Closing stock 80 units
Production 280 units
Sales 330 units
Based on the data, the opening stock for April will have to be:

- ► 50 units
- ► 410 units
- ► 70 units
- **► 130 units**

330 - 280 = 50 +80= 130

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

Which of the following is a reason of main difference between production budget and Production cost budget?

- ► Production budget is constructed in units
- ► Production budget is constructed in Rs.
- ► Production cost budget is constructed in units
- **► Both are same budgets**

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

Which of the following factor would determine the importance of direct labor cost budget in human resource department?

- **► Provide guidance about the requirements of number of work force**
- ► Provide feed back about the working of workforce
- ► How much payroll will have been paid?
- ► How the cost units will be produced?

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

Usually the first step in the production of the master budget is the:

- **► Sales forecast**
- ► Sales budget
- ► Cash budget
- ► Production budget

Page no 202

Question No: 29 (Marks: 1) - Please choose one

The master budget usually begins with a:

- ► Production budget
- ► Direct materials budget
- ► Direct labor budget
- **► Sales budget**

Page no 202

Question No: 30 (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: 31 (Marks: 1) - Please choose one

Which of the following is true about flexible budget?

► A budget that always based on actual capacity
► A budget that is prepared using spreadsheet model
► A budget in which total variable cost remains unchanged
► Variable costs per unit will remain unchanged

Page no 201

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

Smith & Company estimate its overheads to produce 80,000 units are Rs. 1,000,000 (60 percent is variable). What would be the budgeted overhead at a capacity level of 100,000 units?

► Rs. 1,050,000
► Rs. 1,150,000
► Rs. 1,250,000
► Rs. 1,450,000

variable=1000,000 * 0.6=600000
per unit v.c= 600,000 / 80,000 = 7.5
fc = 400,000
so total cost @ 100,000 level=
fc+vc
fc=400,000
vc = 7.5 * 100,000 = 750,000
so 750,000 + 400,000 = 1150,000

Question No: 33 (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: 34 (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: 36x7000=252000
VC: 28x7000=196000
CM: 252 000-196000=56000
MOS = Budgeted or Actual sales − Break even sales
Break even sales = fixed cost/ (contribution margin/sales or c/s)
Break even Sales = (50,000)/(56000 /252000)=225022
MOS = (252000-225022) = 26,977= 27000

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

Perpetual inventory system is:

► A stock control system designed to ensure that the level of stock never falls to zero

► A system of counting and valuing selected stock items at different times on a perpetually rationing basis

► A system of recording receipts and issues of stock as they occur, showing the resulting balance of each stock item at all times

► A system of stock recording which remains unchanged over time,in rder to monitor trends

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

D Corporation uses process costing to calculate the cost of manufacturing Crunchies. During the month 12,500 units were completed, 1,500 units remained in work in process at 25 percent completed. How many equivalent units are produced?

► 12,500 units
► 12,875 units
► 14,250 units
► 12,125 units

12500+1500*25/100= 1`2875

Question No: 37 (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: 38 (Marks: 1) - Please choose one

All of the following are deducted from Gross Profit to calculate Operating income **EXCEPT**:

► Selling expenses
► Advertising expenses
► Administrative expenses
► **Financial expenses**

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

A company produces two chemicals in a joint process. Chemical A can be sold at split off while chemical B currently cost Rs. 12 per gallon for disposal. If chemical B is further processed, it would cost Rs. 17 per gallon. At what sale price would the company be in different between disposing of chemical B at split off and further processing the chemical?

► Rs. 5
► **Rs. 17**
► Rs. 29
► Rs. 7

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

Which of the following is(are) base(is) of cost allocation under joint products?

► Physical quantity ratio
► Selling price ratio
► Hypothetical market value ratio
► **All of given options**

Question No: 41 (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: 42 (Marks: 1) - Please choose one

Which of the following is NOT the type of a functional budget?

- ► **sales budget**
- ► Raw material budget
- ► Direct labour budget
- ► Cash budget

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

Which of the following must be required for the preparation of Production cost budget?

- ► **Sales in rupees**
- ► Cash budget
- ► Flexible budget
- ► Functional budget

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

Which of the following budget includes an item of indirect material cost?

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

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

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

What is the ending cash balance in September?

- ► Rs. (8,000)
- ► Rs. 22,000
- ► **Rs. 36,000**
- ► Rs. 45,000

16000 + 272000 - 62000 - 190000 = 36000

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

Which of the following cost ('s) will be considered as controllable cost ('s)?

- ► Direct material
- ► Direct labor
- ► Variable overhead
- ► **All of the given options**

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

All of the following costs are irrelevant to decision making **EXCEPT:**

- ► **Incremental cost**
- ► Sunk cost
- ► Fixed cost
- ► Supervisor's routine salary

Question No: 48 (Marks: 1) - Please choose one

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

- ► It is irrelevant to decision making
- ► It is always a sunk cost
- ► It is always a historical cost
- ► **It is relevant to decision making**

Question No: 49 (Marks: 3)

The Midnight Corporation budget department gathered the following data for the third quarter:

	July
Projected Sales (units)	1,000
Selling price per unit (Rs.)	30
Direct material purchase requirement (units)	1,500
Purchase cost per unit (Rs.)	15
Production requirements (units)	800

Direct labor hours Rs. 1.5 per unit
Direct Labor rate Rs. 2.5 per direct labor hour
Fixed FOH is Rs. 2600, included depreciation Rs. 300
Selling and Admin expense 4% of sales

Net Income before tax is as follows

July	8,000
August	10,000
September	8,000

All sales and purchase are for cash and all expenses are paid in the month incurred. Assuming that the opening cash balance on July 01 is Rs. 40,000 and tax rate is 35%,

Requirement:
Prepare cash budget for the month of July.

1900

Question No: 50 (Marks: 3)

Why is the selection of an appropriate cost allocation method in Joint Products important?

Question No: 51 (Marks: 5)

The following information is available for the month of June from the Alpha department of the Greek Corporation:

	Units
Work in process June 01 (80% complete as to conversion)	40,000
Started in June	165,000
Work in process June 30 (60% complete as to conversion)	30,000

Materials are added at the beginning of the process in the Alpha department.
Required: Using the average cost method, what are the equivalent units of production for the month of June?

Question No: 52 (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 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.

Question No: 53 (Marks: 10)

Consider the following data:

Sales	Rs.100 Per unit
Material	Rs.10 Per unit
Labor	Rs.10 Per unit
FOH	Rs.5 Per unit
Fixed FOH	Rs. 50,00,000
Units produced & sold	1,00,000 units

Required:
- Income statement under variable costing
- Break Even point in rupees
- Margin of safety ratio at the given sales level

- MOS

Question No: 54 (Marks: 10)

Ahmed manufacturing company's projected sales of Rs. 850,000 for the next year. The budgeted data proposed by Cost Accountants are as follows:

Material:	Rs. 115,000
Labor:	95,000
FOH:	65,000

The company's opening finished goods inventory are Rs. 35,000 and ending finished goods inventory are Rs. 55,000. The fixed portion of administrative and selling expenses is estimated as 7% and 12% of sales respectively and variable portion of administrative and selling expenses is estimated as 6% and 14% of sales respectively.
The financial charges are estimated Rs. 5,500 and the tax rate is 30%.

Required: Prepare the projected income statement for the period?

FINALTERM EXAMINATION
Fall 2009
MGT402- Cost & Management Accounting (Session - 4)

Time: 120 min
Marks: 84

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

Railway Product Ltd makes one product that sells for Rs. 72 per unit. Fixed costs are Rs. 81,000 per month & the product has a contribution to sales ratio of 37.5%. In a period when actual sales were Rs. 684,000 the company's unit margin of safety was:

- ► 4,000 units
- ► 4,800 units
- ► 5,500 units

► **6,500 units**

SOLUTION:

Budgeted sales in units – Break-even sales in units = Unit Margin of safety
Budgeted sale in unites = 684000 / 72 = 9500 Units.
Break even sales in Units = Fixed cost / Contribution margin per unit
Contribution to sales ratio = Contribution margin/ Sales
37.5% = CM / 684000
CM = 684000 * 37.5% = 256500
CM in Units = 256500 / 9500 = 27 per unit
Break-even sales in units = Fixed cost/ Contribution margin per unit
Break-even sales in units = 81000 / 27 = 3000
Unit Margin of safety **= 9500 – 3000 = 6500**

Question No: 2 (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**

SOLUTION:

Sale price per unit		15
Less: Absorption cost per unit		
Direct materials	3.5	
Direct Labor	4.0	
Variable overhead	2.0	
Absorbed fixed overhead		
(60,000/30000= 2)	2.0	
Cost per Unit		11.5
Net Profit under absorption costing		**3.5**

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

Superior started 80,000 gallons of paint. During the month the company completed 92,000 gallons and transferred them to the mixing department. Superior had 38,000 gallons in beginning inventory and 26,000 gallons in ending inventory.
Material is added at the beginning of the process and conversion costs are added evenly throughout the process.

Beginning WIP was 30% complete as to conversion costs and ending WIP was 20% complete as to conversion costs. The company uses a FIFO costing

The company uses a FIFO costing. The cost data for February follow:

Beginning inventory:
Direct materials Rs.22, 200
Conversion costs Rs. 44,000
Costs added this period:
Direct materials Rs. 150,000
Conversion costs Rs. 343,200
Required:
What was the cost of direct materials in ending inventory?

► Rs. 37,560
► Rs. 42,600
► Rs. 45,550
► **Rs. 48,750**

<<< Solution
as the ending inventory only contained units which were put in the process and the opening units have already been transfered out so the unit cost will be 150000/80000 = 1.875 when multiplied with ending units 26000 gives us Rs. 48750 the cost of materials of ending inventory

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

Which of the following costs would **NOT** be a period cost?

► Indirect materials
► Administrative salaries
► Advertising costs
► **Selling costs**

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

cost imposed on a firm includes cost when it foregoes an alternative action but doesn't make a physical payment. Such costs are known as?

► Firm cost
► Product cost
► **Implicit cost**
► Explicit cost

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

Which of the following is **CORRECT** to calculate cost of goods manufactured?

► Direct labor costs plus total manufacturing costs
► The beginning work in process inventory plus total manufacturing costs and subtract the ending work in process inventory
► Beginning raw materials inventory plus direct labor plus factory overhead
► Conversion costs and work in process inventory adjustments results in cost of goods manufactured

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

If EOQ = 360 units, order costs are Rs. 5 per order, and carrying costs are Rs. 0.20 per unit, what is the usage in units?

► 2,592 units
► 25,920 units
► 18,720 units
► 129,600 units

SOLUTION:

EOQ = 2xRUxOC / UC x CC%
360 = 2 * RU * 5 / .20
129600 = 2 * RU * 5 / .20
129600 * .20 = 10 RU
259206/10 = RU
RU = 2592

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

In cost Accounting, normal loss is/are charged to:

► Factory overhead control account
► Work in process account
► Income Statement
► All of the given options

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

The flux method of labor turnover denotes:

► Workers employed under the expansion schemes of the company
► The total change in the composition of labor force
► Workers appointed against the vacancy caused due to discharge or quitting of the organization
► Workers appointed in replacement of existing employees

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

Over applied FOH will always result when a predetermined FOH rate is applied and:

► Production is greater than defined capacity
► Actual overhead costs are less than budgeted
► Budgeted capacity is less than normal capacity

► Actual overhead incurred is less than applied Overhead

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

Capacity Variance / Volume Variance arises due to

► Difference between Absorbed factory overhead and budgeted factory for capacity attained

► Difference between Absorbed factory overhead and absorption rate

► Difference between Budgeted factory overhead for capacity attained and FOH actually incurred

► None of the given options

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

If a company uses a predetermined rate for the application of factory overhead, the idle capacity variance is the:

► Over or under applied fixed cost element of overheads

► Over or under applied variable cost element of overheads

► Difference in budgeted costs and actual costs of fixed overheads items

► Difference in budgeted cost and actual costs of variable overheads items

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

At the end of the accounting period, a production department manager submits a production report that shows all of the following **EXCEPT**:

► Number of units in the beginning work in process

► Number of units sold

► Number of units in the ending work in process and their estimated stage of completion

► Number of units completed

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

In a process costing system, the journal entry used to record the transfer of units from Department A, a processing department, to Department B, the next processing department, includes a debit to:

► Work in Process Department A and a credit to Work in Process Department B

► Work in Process Department B and a credit to Work in Process Department A

► Work in Process Department B and a credit to Materials

► Finished Goods and a credit to Work in Process Department B

Question No: 15 (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

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

Which of the following method of accounting for joint product cost will produce the same gross profit rate for all products?

► Actual costing method
► Services received method

► Market value method
► Physical quantity method
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Question No: 17 (Marks: 1) - Please choose one

Which of the following costing method provide the added benefit of usefulness for external reporting purpose?

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

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

Contribution margin contributes to meet which one of the following options?

► Variable cost
► Fixed cost
► Operating cost
► Net Profit

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

If sales price and variable cost per unit both increases at10% and the fixed cost does not change, what does its effect be on the contribution margin per unit and 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 increases and the contribution margin ratio remains unchanged

► Contribution margin per unit decreases and the contribution margin ratio remains decreases

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

Which of the following factor/s would cause the break-even point to change?

► Increased sales volume

► Fixed costs increased due to addition of physical plant

► Total variable costs increased as a function of higher production

► All of the given options

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

Bruce Inc. has the following information about Rut, the only product sold. The selling price for each unit is Rs. 20, the variable cost per unit is Rs. 8, and the total fixed cost for the firm is Rs. 60,000. Bruce has budgeted sales of Rs. 130,000 for the next period. What is the margin of safety in Rs. for Bruce?

► Rs. 30,000

► Rs. 70,000

► Rs. 100,000

► Rs. 130,000

SOLUTION:

Budgeted sales – Break-even sales = Margin of safety
Budgeted Sale = 130000
Sale Unites = 130000 / 20 = 6500 Units
Variable = 6500 * 8 = 52000
Fixed = 60000
Break-even sales in Rupees = Fixed cost / CS Ratio
Contribution to sales ratio = Contribution margin/ Sales
CM = 130000 – 52000 = 78000
Contribution to sales ratio = 78000 / 130000 = 0.60
Breakeven sale in Rupees = 60000 / 0.60 = 100000
Margin of safety = 130000 – 100000 = **30000**

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

Production budget is an example of which of the following budget?

► Functional budget

► Master budget

► Cost of goods sold budget

► Sales budget

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

Which of the following is the main objective of direct material budget?

► Determination of minimum and maximum stock level
► Developing purchasing requirements
► Financial Arrangements
► All of the given options

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

All of the following compose cost of goods sold EXCEPT:

► Raw material
► Labor
► Capital
► Factory overhead

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

Financial managers use which of the following to plan for monthly financing needs?

► Capital budget
► Cash budget
► Income Statement budget
► Selling & administrative expenses budget

Question No: 26 (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: 27 (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: 28 (Marks: 1) - Please choose one

If the cost per equivalent unit is Rs. 1.60. The equivalent units of output are 50,000. The WIP closing stock is 10,000 units, 40% completed. What will be the value of closing stock?

► Rs. 9,600
► Rs. 80,000
► Rs. 16,000
► Rs. 6,400

SOLUTION:
Closing stock = 10000 * 0.40 = 4000 * 1.60 = **6400**

Question No: 29 (Marks: 1) - Please choose one

Opening WIP Jan 01	0 units
Units received from preceding department	13,500 units,@4.50 per unit cost
Units completed in this department	11,750 units, @3.75 per unit cost

What were the units of closing work in process?

► 11,750 units
► 1,750 units
► 13,500 units
► 2,187 units

SOLUTION:
Closing WIP = 13500 – 11750 = **1750**

Question No: 30 (Marks: 1) - Please choose one
Which of the following is(are) base(is) of cost allocation under joint products?

► Physical quantity ratio
► Selling price ratio
► Hypothetical market value ratio
► All of given options

Question No: 31 (Marks: 1) - Please choose one
Income approach is used for the costing of which of the following?

► Joint products
► By-products
► Both Joint products and By-products
► None of the given options

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Question No: 32 (Marks: 1) - Please choose one
Which of the following is an element of cost?

► **Direct Labour Cost**
► Cost of goods sold
► Cost of goods manufactured
► Mark up

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

If, Total fixed cost Rs. 2,000, Variable manufacturing cost Rs. 3,000, Variable selling cost Rs. 1,000 and Sales Rs. 10,000 then what will be the profit under absorption costing?

► Rs.7,000
► **Rs.5,000**
► Rs.4,000
► Rs.8,000

Profit under absorption costing = 10000 – 3000 – 2000 = **5000**

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

Which of the following cannot becomes a part of product cost under marginal costing?

► Direct materials
► Variable manufacturing overhead
► **Fixed manufacturing overhead**
► Direct labor

Question No: 35 (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: 36 (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%

SOLUTION:

MOS ratio = MOS/ Budgeted Sales x 100 %
Budgeted sales – Break-even sales = Margin of safety

3000 = 8000 – 5000 = Margin of safety
MOS ratio = 3000 / 8000 * 100 = **37.5%**

Question No: 37 (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: 38 (Marks: 1) - Please choose one

Responsibility center where the manager is accountable for only the revenues and costs is a(n):

- ► Revenue center
- ► Cost center
- ► Profit center
- ► Investment center

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

Which of the following is/are included in production budget?

- ► Raw material budget
- ► Direct labour budget
- ► Factory overhead budget
- ► **All of the given options**

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

If, units of goods to be sold are 800, closing finished goods units are 200 and opening finished goods units are 100. What is the required production?

- ► **900 units**
- ► 1,000 units
- ► 700 units
- ► 600 units

SOLUTION:

PRODUCTION = 800 + 200 = 1000 – 100 = **900**

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

Which of the following must be required for the preparation of Production cost budget?

- ► **Sales in rupees**
- ► Cash budget
- ► Flexible budget

► Functional budget

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

Which of the following budget includes an item of indirect material cost?

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

Question No: 43 (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: 44 (Marks: 1) - Please choose one

All of the followings are included in Fixed FOH Cost Budget **EXCEPT**:

► Building rent
► Insurance
► Supervisor's salary
► Heating and lighting

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

All of the following are the examples of administrative expenses **EXCEPT**:

► Salaries of employees
► Utility bills
► Interest paid on debt
► Depreciation of office equipment

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

Samson Company is required by the bank to maintain a minimum cash balance of Rs. 8,000. The Company is preparing a cash budget for February. Samson's beginning cash balance is Rs. 10,000 and expects cash receipts of Rs. 20,500 and cash disbursements of Rs. 25,000 (including Rs. 3,000 of depreciation). The company currently owes the bank Rs. 20,000. In order to have exactly the required minimum balance at the end of February, Samson must:

► Borrow Rs. 500
► Repay Rs. 500
► Borrow Rs. 2,500
► Repay Rs. 2,500

Solution
10 000 + 20 500 - 22 000 = 8500
minimum balance is 8000 so if they want to keep minimum balance they will repay 500

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

Depreciation relating to plant & machinery is the best example of:

- ► **Committed fixed cost**
- ► Discretionary fixed cost
- ► Incremental cost
- ► Avoidable cost

Question No: 48 (Marks: 1) - Please choose one

Which of the following is a cost that is always irrelevant to decision making?

- ► Opportunity cost
- ► **Sunk cost**
- ► Direct material cost
- ► Direct labour cost

Question No: 49 (Marks: 3)

The Superior Company manufactures paint and uses a process costing system. During February, Superior started 80,000 gallons of paint. During the month the company completed 92,000 gallons and transferred them to the mixing department. Superior had 38,000 gallons in beginning inventory and 26,000 gallons in ending inventory. Material is added at the beginning of the process and conversion costs are added evenly throughout the process. Beginning WIP was 30% complete as to conversion costs and ending WIP was 20% complete as to conversion costs. The company uses a FIFO costing. The cost data for February follow:

Beginning inventory:
Direct materials Rs.22, 200
Conversion costs Rs. 44,000
Costs added this period:
Direct materials Rs. 150,000
Conversion costs Rs. 343,200
Required:
How many gallons were started and completed this period?

Answer :

Opening work in process = 38,000 gallons
Add Gallons of paint started = 80,000
Total in the department during the period = 1,18,000

Units Transferred out = 92000
Ending work in process = 26000 gallons

Units of opening work in process	38000	
Units put into the process	80,000	
		118,000
Units of closing work in process	26,000	
Units completed and transferred out	92,000	
		118,**000**

Question No: 50 (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.

Answer :

WORKING

As the limiting factor in above case is the machine hours so we will go with that option which gives the maximum contribution margin per machine hour. This means per one hour usage of machine whichever product maximizes the contribution margin should be made and sold by the company

	PRODUCT A	PRODUCT B
Contribution Margin/Unit	8	12
Machine hour required per unit	4	5
Contribution per machine hour	2 Rs	2.4 Rs

Although one unit of A requires less time in making than one unit of B but because machine hours is a limiting factor so option B will be taken because it gives more contribution margin per machine hour than product A. So product B should be made by the company and sold instead of A.

Question No: 51 (Marks: 5)

Liberty Pizzas delivers to the housing societies near Gulberg. The company's annual fixed costs are Rs 400,000. The sales price of a normal size pizza is Rs 100 and it costs the company Rs 60 to make and deliver each pizza.

Required:

1- Calculate the Break even sales in Rs and in Units.
2- How many Pizzas must the company sell to earn a profit of Rs.650,000

Answer :

1- Calculate the Break even sales in Rs and in Units.

Answer :

Sale price per unit = Rs 100
Variable cost per unit = Rs 60
Fixed Cost = Rs. 400,000

Contribution margin per unit = Sale price per unit– Variable Cost per unit
Contribution margin per unit = 100-60 = 40

So contribution margin to sales ration is
C/S = (40/100)X100 = 40%

So break even point in rupees can be calculated as
Break even point in rupees = Fixed Cost/contribution margin ratio
Break even point in rupees = 400,000/.40
Break even point in rupees = 10,00,000 Rs

Break even point in units = Break even point in Rs/ Sale price per unit
Break even point in units = 10,00,000/100
Break even point in units = 10,000 units (10 thousand units)

2- **How many Pizzas must the company sell to earn a profit of Rs.650,000**

Answer :

Required profit = Rs 650,000
Required contribution margin = Required profit + Fixed cost
Required contribution margin = 650,000 + 400,000 = Rs. 1,050,000

Contribution margin per unit = 100 – 60 = 40 Rs

So numbers of pizzas to produce to earn a profit of Rs 650,000 = 1,050,000/40
Numbers of pizzas to produce to earn a profit of Rs 650,000 = 26,250 pizzas

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	**Administrative Expense**
Interest paid on debts	**Financial Expense**
Utility Bills	**Administrative Expense**
Depreciation of office equipment	**Administrative Expense**
Interest paid on debentures	**Financial Expense**

Question No: 53 (Marks: 10)

The following is the Corporation's Income Statement for last month:

Particulars	Rs.
Sales	4,000,000
Less: variable expenses	1,800,000
Contribution margin	2,200,000
Less: fixed expenses	720,000
Net income	1480,000

The company has no beginning or ending inventories. A total of 80,000 units were produced and sold last month.

Required:

3- What is the company's contribution margin ratio?
4- What is the company's break-even in units?
5- How many units would the company have to sell to attain a target profit of Rs. 820,000?

Composed & Solved
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Vu Askari Team
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<u>**A**nswer :</u>

1- <u>What is the company's contribution margin ratio?</u>

<u>Answer :</u>

Contribution margin ratio = (Contribution margin / Sales) X 100
Contribution margin ratio = (2,200,000/4,000,000)X 100
Contribution margin ratio = 55 %

2- What is the company's break-even in units?

<u>Answer :</u>

Fixed Cost = Rs 720,000
Contribution margin ratio = Rs 2,200,000
Number of units produced and sold = 80,000
Contribution margin per unit = 2,200,000/ 80,000 = Rs 27.5

Break even point in Units = Fixed Cost/ Contribution margin per unit
Break even point in Units = 720,000/ 27,5
Break even point in Units = 26181.82 or approximately 26,182 units

3- How many units would the company have to sell to attain a target profit of Rs. 820,000?

<u>Answer :</u>

We know that
Contribution margin per unit = Total Contribution margin/ Total units sold
Contribution margin per unit = 2,200,000/80,000 = 27.5 Rs

So target profit = 820,000
Target contribution margin in Rs= 820,000 + 720,000 (fixed cost)
Target contribution margin in Rs = 1,540,000

No. of units = Target contribution margin in rupees/Contribution margin per unit
No of Units to produce = 1,540,000/27.5 = 56,000 units

So to attain a target profit of Rs 820,000 total units that should be produced are 56,000 units

Question No: 54 (Marks: 10)

The manufacturing Company estimates its factory overhead to be as follows:

Fixed expense per month	Rs.	Variable rate (Rs.) per direct labor hour
Indirect material	2,000	
Indirect Labor	900	0.2
Maintenance	1200	0.3
Heat and Light	300	
Power	200	0.55
Insurance	270	
Taxes	600	
Payroll Taxes	0	0.10
Depreciation	1,350	

Assuming that the direct labor hours for January, February and March are 2,640, 4,740 and 2,370 hours respectively.

Required:

Prepare factory overhead budget for the first quarter.

FINALTERM EXAMINATION
Fall 2009
MGT402- Cost & Management Accounting

Ref No:
Time: 120 min
Marks: 84

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

In a situation where a company must subcontract work to make up a shortfall in its own production capability, its total costs are minimized if those components/products subcontracted are those:

► With the highest extra variable cost of buying per unit of limiting factor saved by buying

► With the lowest extra variable cost of buying per unit of limiting factor saved by buying

► With the lowest extra fixed cost of buying per unit of limiting factor saved by buying

► With the highest extra fixed cost of buying per unit of limiting factor saved by buying

Ref = page no 244

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

Which of the following product cost is Included in prime cost and conversion cost?

► Direct labor

► Manufacturing overhead

► Direct material

► Work in Process

Page no 2

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

A firm had beginning finished goods inventory of Rs.15,000, ending finished goods inventory of Rs. 20,000 and cost of goods sold of Rs. 80,000. What was the cost of goods manufactured?

► Rs. 80,000

► Rs.85,000

► Rs.75,000

► Rs.65,000

80000+20000=100000-15000=85000

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

"Taking steps for the fresh purchase of those stocks which have been exhausted and for which requisitions are to be honored in future" is an easy explanation of:

► Over stocking

► Under stocking

► Replenishment of stock

► Acquisition of stock

Page no 50

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

While transporting petrol, a little quantity will be evaporated; such kind of loss is termed as:

► Normal Loss.

► Abnormal Loss.

► Incremental Loss.

► Incremental abnormal loss.

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

Machine lubricant used on processing equipment in a manufacturing plant would be classified as a:

► Period cost (manufacturing overhead)

► Period cost (Selling, General & Admin)

► Product cost (manufacturing overhead)

► Product cost (Selling, General & Admin)
Page no 7

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

The net profit or loss for a particular period of time is reported on which of the following?

► Statement of cash flows

► Statement of changes in owner's equity

► Income statement

► Balance sheet

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

Which of the following is/are the basic object/s of job analysis?

► Determination of wage rates

► Ascertain the relative worth of each job

► Breaking up job into its basic elements

► All of the given options

Page no 69

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

Capacity Variance / Volume Variance arises due to

► Difference between Absorbed factory overhead and budgeted factory for capacity attained

► Difference between Absorbed factory overhead and absorption rate

► Difference between Budgeted factory overhead for capacity attained and FOH actually incurred

► None of the given options

Page no 119

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

The difference over the period of time between actual and applied FOH will usually be minimal when the predetermined overhead rate is based on:

► Normal capacity

► Designed capacity

► Direct Labor hours

► Machine hours

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

Which of the following would be considered a major aim of a job order costing system?

► To determine the costs of producing each job

► To compute the cost per unit

► To include separate records for each job to track the costs

► All of the given options

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

Which of the following is characteristic of a job order cost accounting system?

► It records manufacturing activities using a perpetual inventory system

► It tracks cost by job

► It is best suited for customized products

► All of the given options

Question No: 13 (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: 14 (Marks: 1) - Please choose one

If joint products are to be processed further beyond the point of separation, costs should be assigned to the products on the basis of:

► Adjusted sales value

► Ultimate sales value

► A physical unit of measure

► An engineering analysis

Page no 154

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

Profit under absorption costing will be higher than under marginal costing if:

► Produced units > Units sold

► Produced units < Units sold

► Produced units =Units sold

► Profit cannot be determined with given statement

Page no 171

Question No: 16 (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
Page no 183

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

The break-even point in units is calculated using which of the following factors?

► Fixed expenses and the contribution margin ratio

► Variable expenses and the contribution margin ratio

► Fixed expenses and the unit contribution margin

► Variable expenses and the unit contribution margin

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

Accelerate Ltd has fixed costs of Rs. 72,000 per annum. It makes one product which it sells for Rs. 32 per unit. Its contribution to sales ratio is 45%. Accelerates break even point in units is:

► 5,000 units

► 7,000 units

► 2,250 units

► 2,750 units

32*45%=14.4
72000/14.4=5000

Question No: 19 (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

15-6 = 9
15000/6= 2500

Question No: 20 (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

http://wps.prenhall.com/ema_uk_he_upchurch_costacct_1/0,4698,223191-,00.html

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

The by-product of oil and fuel is:

► Mobil oil and lubricating oils

► Kerosene oil and Asphalt and Tar

► Gasoline and Petroleum coke

► All of the given

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

Which one of the following is **NOT** a tool of financial forecasting?

► Cash budget

► Capital budget

► Pro forma balance sheet

► Pro forma income statement

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

Atlas Productions expects to sell 85,000 gimlets its only product next year. The company has a beginning inventory of 14,000 units and wants to have an ending inventory of 12,000 at the end of the year. How many gimlets does Atlas have to produce to meet its goals?

► 79,000 units

► 83,000 units

► 85,000 units

► 97,000 units

85000+12000-14000=83000

Question No: 24 (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

12*2 = 24
27000 * 24 = 648000

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

Gleason Company has budgeted Rs. 15,000 in variable factory overhead costs and Rs. 10,000 in fixed factory overhead costs for the production of 2,000 units requiring 4,000 direct labor hours. The standard factory overhead rate per direct labor hour and the standard overhead cost per unit are:

► Rs. 12.50, Rs. 6.25

► Rs. 7.50; Rs. 15.00

► Rs. 15.00, Rs. 7.50

► Rs. 6.25, Rs. 12.50

25000 / 4000 = 6.25
25000 / 2000 = 12.5

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

The master budget usually begins with a:

► Production budget

► Direct materials budget

► Direct labor budget

► Sales budget

Page no 201

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

In the decision to replace an old equipment with a new equipment, which of the following would be considered as relevant cost?

► The book value of the old equipment

► Depreciation expense on the old equipment

► The loss on the disposal of the old equipment

► The current disposal price of the old equipment

Question No: 28 (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: 29 (Marks: 1) - Please choose one

Opening WIP Jan 01	3,500 units.
Completed	19,000 units
Closing WIP 31st Jan	6,500 units.

How many units were started during January?

► 19,000 units

► 22,000 units

► 16,000 units

► 25,500 units

19000+ 65000= 25500

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

Order level is a point at which,

► It is necessary to start production

► It is necessary to initiate purchase orders

► It is necessary to maintain minimum stock level

► It is necessary to maintain maximum stock level for orders

page no 50

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

Which of the following is an element of cost?

► Direct Labour Cost

► Cost of goods sold

► Cost of goods manufactured

► Mark up

Question No: 32 (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

Page no 230

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

Which of the following cannot becomes a part of product cost under marginal costing?

► Direct materials

► Variable manufacturing overhead

► Fixed manufacturing overhead

► Direct labor
Page no 164

Question No: 34 (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
163 page no

Question No: 35 (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%

8000-5000=3000
3000/8000*100=37.5

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

A company ABC has contribution to sales ratio of 17% and a profit to sales ratio of 6%. What will be the margin of safety ratio?

► 283.3%

► 35.3%

► 11.5%

► It can not be calculated from the given data

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

Which of the following is a purpose of Break-even chart with respect to its usage?

► To show the effect of change in circumstances

► To show the financial performance of business

► To show the financial health of business

► To calculate the cost of production

Page no 193

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

Responsibility center where the manager is accountable for only the revenues and costs is a(n):

► Revenue center

► Cost center

► Profit center

► Investment center

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

If, units of goods to be sold are 800, closing finished goods units are 200 and opening finished goods units are 100. What is the required production?

► 900 units

► 1,000 units

► 700 units

► 600 units

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

If sale at 120% of cost is Rs. 96,000 then, what would be the cost?

► Rs. 80,000

►Rs. 115,200
► Rs. 19,200

► Cannot be determined

120/100*96000=115200

Question No: 41 (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

50000*50/100=25000

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

Which of the following is an example of financial expense?

► Salaries of employees

► Utility bills

► Interest paid

► Depreciation of office equipment

Question No: 43 (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: 44 (Marks: 1) - Please choose one

All of the following costs are relevant to decision making **EXCEPT**:

► Incremental Cost

► Overtime wages

► Variable cost

► Research & development cost

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

All of the following costs are irrelevant to decision making **EXCEPT:**

► Incremental cost

► Sunk cost

► Fixed cost

► Supervisor's routine salary

Question No: 46 (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: 47 (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

Page no 247

Question No: 48 (Marks: 1) - Please choose one

A contract will be accepted in which of the following condition?

► If it reduces the contribution margin

► If it increases the contribution margin

► If it increases the fixed cost

► If it decreases sales revenue

Question No: 49 (Marks: 3)

Ahmed Trading Company has the following information about Soap, the only product it sells. The selling price for each unit is Rs 150. the variable cost per unit is Rs 45. and the total fixed cost for the firm is Rs. 90,000. The Company has budgeted sales of Rs. 370,000 for the next period. Calculate Margin of safety in Rs.

	Per Unit	Amount
Sales	150.00	370,000.00
Variable Cost	45.00	111,000.00

Cont Margin	105.00	259,000.00
Fixed Cost		90,000.00
Profit		169,000.00

Margin Of Safety = Budgeted Sales - Breakeven Sales

Break Even Sales = Fixed Cost/Contibution Margin Per Unit = No. Of units of Breakeven Sales

Units to be sold for Breakeven = 857.14
Selleing price = 150

Breakeven Sales in Rs. =128,571.43

Margin Of Safety in Rs =370,000128,571.43
Margin Of Safety in Rs. =241,428.57

Question No: 50 (Marks: 3)

The gross profit for the company amounts to Rs. 150,000. The marketing and office expenses are Rs. 45,000 and Rs. 20,000 respectively. The financial charges for the period are Rs. 2,500. Calculate the Operating profit of a company?

Solution:
Operating Profit = Gross profit – Marketing Expenses- Office Expenses
Operating Profit = 150,000 – 45,000 – 20,000= 85,000

Question No: 51 (Marks: 5)

ICI Ltd manufactured three joint products, W, X, Z in a common process. The cost and production data for March is as follows:

	Rs.
Opening stock	40,000
Direct material input	80,000

Conversion cost	100,000
Closing stock	20,000

Out put and sales were as follows:

Products	Production units	sales units	sales price per unit
W	20,000	15,000	4
X	20,000	15,000	6
Z	40,000	50,000	3

Required:
Costs are apportioned between joint products on market value basis, (Sales value of the units produced)?

	W	X	Z	Total
Final Price	**4**	**6**	**3**	
Direct Meterial	**16,000**	**24,000**	**40,000**	**80,000**
Coversion Cost	**20,000**	**30,000**	**50,000**	**100,000**
Total Cost	**36,000**	**54,000**	**90,000**	**180,000**
Closing Balance	**9,000**	**13,500**		
Net Cost	**27,000**	**40,500**	**90,000**	
Sales Price	**60,000**	**90,000**	**150,000**	
Profit	**33,000**	**49,500**	**60,000**	

Question No: 52 (Marks: 5)

Briefly describes the main features of relevant cost?

A relevant cost is a cost which is related to the future expected costs that is considerable for decision making for the management. Due to the difference among alternatives it will effect the decision of management like opportunity cost. The interest rate provided by the bank against investment is an opportunity cost which an investor can earn simply without making any business activity.

Question No: 53 (Marks: 10)

Particulars	Significant Product	Incidental Product
Opening Stock	-----	-----
Production during the year	10,000 units	800 units
Closing Stock	1,000 units	100 units
Cost incurred	Rs. 6,40,000	-----
Sales price per unit	Rs. 300	Rs. 200
Further Processing cost		Rs. 50

With the help of above mentioned information, classify the incidental product treated as deduction from the cost of goods sold in the income statement of main product.

[illegible]

[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]

Question No: 54 (Marks: 10)

Describe the various stages in a budgeting process?

Preparation of budgets

After finalizing the forecast the preparation process of budget starts. The budget activity starts with the preparation of the said budget. Then, production budget is prepared on the basis of sales budget and the production capacity available. Financial budget (i.e. cash or working capital budget) will be prepared on the basis of sale forecast and production budget. All these budgets are combined and coordinated into -a master budget- The budgets may be revised in the course of the financial period if it becomes necessary to do so in view of the unexpected developments, which have already taken place or are likely to take place.

Below are the stages of Preparation of Budget.

Functional Budget: Functional Budget is prepared to start the process of budgeting.
Sales budget: Sales budget is the first step in process of budgeting process.
Production Budget: To meet the sales targets production budget if prepared.
Raw material, Labor, FOH Budget: In order to achieve the targets of production Raw material, Labor and FOH budgets are prepared.
Cost of goods sold: cost of goods sole budget is prepared after having above budgets.
Selling & Distribution Expenses, Administrative Expenses, Financial Expenses Budget: At last to determine the net income all these said budgets are prepared.

All the above budgets are consolidated to finalize the Master budget.

FINALTERM EXAMINATION

Spring 2009
MGT402- Cost & Management Accounting (Session - 2)
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Question No: 1 (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: 2 (Marks: 1) - Please choose one

A forecast set of final accounts is also known as:

► Cash budget

► Capital budget

► Master budget

► Sales budget

Page no 199

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

Brutus Company manufactures glass bottles. The company expects to sell 500,000 bottles next year. The budgeted ending inventory this year is 15,000 bottles and the desired ending inventory for next year is 12,000 bottles. It takes 5 pounds of sand to produce one bottle. The ending inventory of sand this year is expected to be 200,000 pounds, and the desired ending inventory next year is 100,000 pounds. The amount of direct material purchases is expected to be:

► 2,385,000 pounds

► 2,465,000 pounds

► 2,585,000 pounds

► 2,600,000 pounds

50000*5=2500000
200000-100000=100000
2500000+100000=260000

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

BDH produced 30,500 units of Kisty (a product). Each unit of Kisty takes two units of component L. Component L is budgeted to cost Rs. 12 per unit. Current inventory of L is 4,000 units. BDH wants 6,000 units of L on hand at the end of the next year. How much will the direct materials budget show as the cost of materials to be purchased?

- ► Rs. 756,000
- ► Rs. 390,000
- ► Rs. 684,000
- ► Rs. 330,000

30500*2=61000
61000*12=732000
4000*12=48000
732000-48000=684000

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

Railway Product Ltd makes one product that sells for Rs. 72 per unit. Fixed costs are Rs. 81,000 per month & the product has a contribution to sales ratio of 37.5%. In a period when actual sales were Rs. 684,000 the company's unit margin of safety was:

- ► 4,000 units
- ► 4,800 units
- ► 5,500 units
- ► 6,500 units

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

A company decreased the selling price for its product from Rs. 2.00 to Rs. 1.75 per unit when total fixed costs decreased from Rs. 500,000 to Rs. 400,000 and variable cost per unit of Rs. 1 remained unchanged. How would these changes affect the break-even point?

- ► The break-even point in units would be increased
- ► The break-even point in units would be decreased
- ► The break-even point in units would remain unchanged
- ► The effect cannot be determined from the information given

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

The total cost of the beginning inventory was Rs. 60,000. During the month, 50,000 units were transferred out. The equivalent unit cost was computed to be Rs. 4.00 for materials and Rs. 7.40 for conversion costs under the weighted-average method.

With the help of given information, what was the total cost of the units completed and transferred out during the month.

► Rs. 480,000
► Rs. 570,000
► Rs. 540,000
► Rs. 510,000

7.40+4=11.40
11.40*50000=570000

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

The average cost method of process costing has an advantage when compared to the FIFO method relative to simplicity because under the average method:

► It provides that units started within the current period are valued at the current period cost
► The costs in the beginning inventory in a processing department maintain their separate identity
► The identity of the beginning units in process is typically maintained when they are transferred to the next department
► All units completed during the period will be assigned the same unit cost

Question No: 9 (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: 10 (Marks: 1) - Please choose one

"Taking steps for the fresh purchase of those stocks which have been exhausted and for which requisitions are to be honored in future" is an easy explanation of:

► Over stocking
► Under stocking
► Replenishment of stock
► Acquisition of stock

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

Which of the following would be the effect, if inventory is not properly measured?

► Expenses and revenues cannot be properly matched
► Unfair position in Financial Statements
► Inventory items show under or over stocking
► All of the given options

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

While calculating the EOQ, carrying cost is taken as the:

► %age of unit cost
► **%**age of ordering cost
► %age of annual required units
► Total unit cost

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

Payroll includes:

► Salaries & Wages of direct labor
► Salaries & Wages of Indirect labor
► Salaries & Wages of Administrative
► Salaries & Wages of direct labor, Indirect labor, and Administrative

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

Increased cost of production due to high labor turnover is a result of which of the following factor?

► Interruption of production
► Coordination between new and old employee to produce more
► Increased production due to newly motivated employees
► Decrease losses as new employees will be more concerned towards output

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

The Process of cost apportionment is carried out so that:

► Cost may be controlled
► Cost unit gather overheads as they pass through cost centers
► Whole items of cost can be charged to cost centers
► Common costs are shared among cost centers

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

When a manufacturing Company has highly automated manufacturing plant producing many different products, the most appropriate basis for applying FOH cost to work in process is:

► Direct labor hours
► Direct labor costs
► Machine hours
► Cost of material used

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

Which of the following industries would most likely use a Process cost Accounting system?

► Construction

- ► Beer
- ► Hospitality
- ► Consulting

Question No: 18 (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: 19 (Marks: 1) - Please choose one

A company produces two chemicals in a joint process. Chemical A can be sold at split off while chemical B currently cost Rs. 2 per gallon for disposal. If chemical B is further processed, it would cost Rs. 5 per gallon. At what sales price would the company be in different between disposing of chemical B at split off and further processing the chemical?

- ► Rs.3
- ► Rs.5
- ► Rs.4
- ► Rs.7

5- 2 = 3

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

Variable costing is also known as:

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

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

The following data related to production of ABC Company:

Units produced	8,000 units
Direct materials	Rs.6
Direct labor	Rs.12
Fixed overhead	Rs.24000
Variable overhead	Rs.6
Fixed selling and administrative	Rs.2000
Variable selling and administrative	Rs.2

Using the data given above, what will be the unit product cost under marginal costing?

- ► Rs. 22

► Rs. 24
► Rs. 28
► Rs. 30

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

Net income reported under direct costing will exceed net income reported under absorption costing for a given period if:

► The fixed overhead exceeds the variable overhead
► Production equals sales for that period
► Production exceeds sales for that period
► Sales exceed production for that period

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

Profit under absorption costing will be higher than under marginal costing if:

► Produced units > Units sold
► Produced units < Units sold
► Produced units =Units sold
► Profit cannot be determined with given statement

Question No: 24 (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

14 – 8 = 6

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

The break-even point in units is calculated using which of the following factors?

► Fixed expenses and the contribution margin ratio
► Variable expenses and the contribution margin ratio
► Fixed expenses and the unit contribution margin
► Variable expenses and the unit contribution margin

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

The point at which the cost line intersects the sales line will be called:

► Budgeted sales
► Break Even sales
► Margin of safety
► Contribution margin

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

If one would prepare a graph with a horizontal axis representing units of production and a vertical axis representing per-unit production cost, how would a line representing fixed production cost is drawn?

- ► As a horizontal line
- ► As a vertical line
- ► As a straight line sloping upward to the right
- ► As a straight line sloping downward to the right

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

Budget for an organization is prepared by which of the following person?

- ► Functional head
- ► Manager
- ► Auditor
- ► Administrator

Question No: 29 (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: 30 (Marks: 1) - Please choose one

Which of the following factor/s should be considered while constructing an administrative selling expense budget?

- ► Fixed expenses
- ► Past experience
- ► Variable expenses
- ► All of the given options

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

All are examples of cash disbursements EXCEPT:

- ► Payment for materials purchased
- ► □□□
- ► Payment of dividends
- ► Payment of taxes

Question No: 32 (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: 33 (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: 34 (Marks: 1) - Please choose one

Which of the following is the first step in the decision-making process?

► Clarify the decision problem
► Collect the data
► Select an alternative
► Develop a decision model

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

Which the following would be considered a Relevant Cost?

► The book value of the old equipment
► Depreciation expense on the old equipment
► The current disposal price of the old equipment
► Historical cost of an equipment

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

The Auslander Company has 1,600 obsolete calculators that are carried in inventory at a total cost of Rs. 106,800. If these calculators are upgraded at a total cost of Rs. 40,000, they can be sold for a total of Rs. 120,000. As an alternative, the calculators can be sold in their present condition for Rs. 44,800. What will be the sunk cost in this situation?

► Rs. 0
► Rs. 40,000
► Rs. 44,800
► Rs. 106,800

Question No: 37 (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: 38 (Marks: 1) - Please choose one

For a retail outlet chain with multiple stores, which of the following statements would be correct?

► Stores which have a net loss should be discontinued
► Stores with a negative contribution margin should be discontinued
► Stores with a negative contribution margin should be discontinued provided such discontinuation will not cause an increase in sales at other stores
► Stores with a negative contribution margin should not be discontinued if such discontinuation will cause profitable stores to bear a portion of the unprofitable store's overhead

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

In the process costing when material is issued for production to department no 1.what would be the journal entry Passed?

► W.I.P (Dept-I)
To Material a/c

► W.I.P (Dept-ii)
To Material a/c

► Material a/c
To W.I.P (Dept-ii)

► W.I.P (Dept-ii)
To FOH applied.

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

FIFO is the abbreviation of:

► Final Interest-Free Option
► First in First out Method
► None of the given options
► Fixed income Financial Operations

Question No: 41 (Marks: 5)

Bouch Company has the following data of year 02 given below

Year 02

Sales	Rs. 120/unit
Direct Materials	Rs. 8/unit
Direct labor	Rs. 10/unit
Variable overhead	Rs. 7/unit
Selling & Admin expenses	Rs. 2/unit
Fixed overhead	Rs. 7,500

Normal volume of production 250 units per year

Information regarding units as follows

Item	1st year	2nd year	3rd year	4th year
	units	units	units	units
Opening stock		200	300	300
Production	300	250	200	200
Sales	100	150	200	300

Required: Prepare income statement of year 2 under absorption costing.

Question No: 42 (Marks: 5)

A Company manufacturers two products A and B. Forecasts for first 7 months is as under:

Month	Sales in Units	
	A	B
January	1,000	2,800
February	1,200	2,800
March	1,610	2,400
April	2,000	2,000
May	2,400	1,600
June	2,400	1,600
July	2,000	1,800

No work in process inventory has been estimated in any moth however finished goods inventory shall be on hand equal to half the sales to the next month, in each month. This is constant practice.

Budgeted production and production costs for the year 1999 will be as follows:

Production units	22,500	24,000
Direct Materials (per unit)	12.5	19
Direct Labor (per unit)	4.5	7
F.O.H. (apportioned)	Rs. 66,000	Rs 96,000

Prepare for the six months period ending June 1999, a production budget for **"Product A"**

Question No: 43 (Marks: 10)

The managing director of Parser Limited, a small business, is considering undertaking a one-off contract. She has asked her inexperienced accountant to advise on what costs are likely to be incurred so that she can price at a profit. The following schedule has been prepared:

Costs for special order	**Notes**	**Rs.**
Direct wages	1	28,500
Supervisor costs	2	11,500
General overheads	3	4,000
Machine depreciation	4	2,300
Machine overheads	5	18,000
Materials	6	34,000
Total		**98,300**

Notes

- Direct wages comprise the wages of two employees, particularly skilled in the labor process for this job. They could be transferred from another department to undertake the work on the special order. They are fully occupied in their usual department and sub-contracting staff would have to be brought in to undertake the work left behind.
- Sub-contracting costs would be Rs. 32,000 for the period of the work. Other sub-contractors who are skilled in the special order techniques are also available to work on the special order. The costs associated with this would amount to Rs. 31,300.
- A supervisor would have to work on the special order. The cost of Rs. 11,500 is made up of Rs. 8,000 normal payments plus a Rs. 3,500 additional bonus for working on

the special order. Normal payments refer to the fixed salary of the supervisor. In addition, the supervisor would lose incentive payments in his normal work amounting to Rs. 2,500. It is not anticipated that any replacement costs relating to the supervisors' work on other jobs would arise.

- General overheads comprise an apportionment of Rs. 3,000 plus an estimate of Rs. 1,000 incremental overheads.

Required

Produce a revised costing schedule for the special project based on relevant costing principles. Fully explain and justify each of the costs included in the costing schedule.

Question No: 44 (Marks: 10)

Due to the declining popularity of digital watches, Swiss Company's digital watch line has not reported a profit for several years. An income statement for last year follows:

Segment Income Statement—Digital Watches		
	Rs.	**Rs.**
Sales		500,000
Less variable expenses:		
Variable manufacturing costs	120,000	
Variable shipping costs..........................	5,000	
Commissions	75,000	200,000
Contribution margin		300,000
Less fixed expenses:		
General factory overhead(1)......................	60,000	
Salary of product line manager...................	90,000	
Depreciation of equipment (2)....................	50,000	
Product line advertising.........................	100,000	
Rent—factory space (3)...........................	70,000	
General administrative expense (1)	30,000	400,000
Net operating loss...............................		(100,000)

1) Allocated common costs that would be redistributed to other product lines if digital watches were dropped
2) This equipment has no resale value and does not wear out through use
3) The digital watches are manufactured in their own facility

Should the company retain or drop the digital watch line?

Question No: 45 (Marks: 10)

Production component	**Rates**	**Per unit Rate**
Direct material	2.5 lbs @ Rs. 4.00	Rs. 10.00
Direct Labor	.5 hr @ Rs. 16.00	Rs. 8.00
VOH	.5 hr @ Rs. 4.00	Rs. 2.00
Fixed FOH	Rs. 40,000	Rs. 2.50
Actual Output	16,000 units	
Variable S&A	Rs. 6.00 per unit	
Fixed S&A	Rs. 60,000	
Selling price	Rs. 40	

Assume sales of 12,000 units.
Required: What is the profit under marginal and absorption costing method?