THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF PAKISTAN (ICPAP)

Stage	**Professional**	Course Code	**P-503**
Examination	**Summer-2012**	Course Name	**Advanced Management Accounting**
Time Allowed	**03 Hours**	Maximum Marks	**100**

NOTES:

1) All questions are to be attempted.
2) Answers are expected to the precise, to the point and well written.
3) Neatness and style will be taken into account in marking the papers.

Question No 1:-

Sajid Industries Limited purchases a component 'C' from two different suppliers, Y and Z. The price quoted by them is Rs. 90 and Rs. 87 per component respectively. However 7% of the components supplied by Y are defective whereas in case of Z, 11% of the components are defective. The use of such defective components results in rejection of the final product. However, the final products to be rejected are identified when the product is 60 % complete. Such units are sold at a price of Rs. 200.
The average cost of the final product excluding the cost of component C is as follows:

	Rupees
Material (excluding the cost of the component C)	420
Labour (3 hours @ Rs 60 per hour)	180
Overheads (Rs. 40 per hour based on labour hours)	120
	720

50% of the material (including the component C) is added at the start of the production whereas the remaining material is added evenly over the production process.
The company intends to introduce a system of inspection of the components, at the time of purchase. The inspection would cost Rs. 20 per component. However, even then, only 90% of the defective components would be detected at the time of purchase whereas 10% will still go unnoticed. No payments will be made for components which are found to be defective on inspection. The total requirement of the components is 10,000 units.

Required:
Analyze the above data to determine which supplier should be selected and whether the inspection should be carried out or not.

Question No 2:-

a) Define the following
   i. Deferential costs.
   ii. Opportunity costs.
   iii. Imputed costs

b) Standard costs and other date for two component parts used by General Manufactures are presented below

	Part-A	Part-B
Direct materials (Rs.)	0.40	8.00
Direct labour (Rs.)	1.00	4.70 factory
Overhead (Rs.)	4.00	2.00
Standard Cost per unit (Rs.)	5.40	14.70
Per year requirement (unit)	6,000	8,000
Machine hour per (unit)	4hours	2hours
Unit cost if purchased	5	15

In past year, General Manufacturer has manufactured all of its required components; however, in the current year only 30,000 hours of otherwise idle machine time can be devoted to component production. Accordingly, some of the pars must be purchased from outside suppliers. In producing parts, factory overhead is applied at Rs.60 per standard machine hour. The fixed capacity cost, which will not be affected by any make –or –buy decision, represents 60% of the applied factory overhead.

Required:

I. The relevant unit production cost to be considered in the make –or buy decision to schedule machine time.
II. Potential cost saving per machine hour.
III. The units of Product A and B that General Manufacturer should produce if the allocation of machine time is based on potential cost saving per machine hour.

Question No 3:-

Delux Company's income statements under absorption costing for the last two ears are presented below:

.	Year 1	Rupees Year 2
Sales	350,000	450,000
Cost of goods sold:		
Beginning inventory	-	30,000
Cost of goods manufactured ,	240,000	240,000

Goods available for sale	240,000	270,000
Ending inventory	30,000	—
Cost of goods sold	210,000	270,000
Gross profit	140,000	180,000
Selling 8. admin. Expenses	125,000	155,000
Net operating income 0	15,000	25,000

Units produced and sold in each of these years are given below:

	Year 1	Year 2
Unit in beginning inventory	- -	1,000
Units produced	8,000	8,000
Units sold	7,000	9,000

Fixed factory overhead totaled Rs. 80,000 in each year. This overhead was applied to products at a rate of Rs.10 per unit. Variable selling and administrative expenses were Rs.15 per unit sold.

Required:

(i) Calculate per unit production cost in each year under marginal costing.

(ii) Prepare income statements for each year using marginal costing.

(iii) Reconcile net operating income for each year under absorption costing and marginal costing.

Question No 4:-

(a) Discuss advantages of standard costing and problems which could be faced during the process of setting standards.

(b) Sialkot sports manufactures squash racket (SR) and tennis racket (TR). The budgeted and actual data for the month October are as under:

		Budgeted		Data Actual Data
Particulars		SR	TR	
Production (units)		1,500	4.000	--
Direct material	wood (Rs. 24/meter)	5 mtrs.	7 mtrs.	--
	gut (Rs.. 120/meter)	4 mtrs.	6 mtrs.	—
Other materials		Rs. 12	Rs. 16	--
Direct labour (Rs. 240/ hour)		20 minutes	30 minutes	-
Production (units)	- SR	-	--	1,890
	- TR is	--	-	3,700
				- Rupees
Direct Materials	Good - 37. 100 mtrs.	-- `	-	880,000
	Gut — 29.200 mtrs.	--	-- `	3,528,000
Other materials		--	--	80,000
Direct Labour 2,200 hours		--	--	548,000

Overhead:		
Variable:	Rupees	
Power	120,000	144,000
Maintenance QCELQ	600,000	552.000
	720,000	
Fixed:		
Supervision	640,000	635,200
Heating &. Lighting	96,000	105,800
Rent	384,000	384,000
Depreciation	560,000	560,000
	1.680000	7,416,800

Required:

Calculate the following:
(i) Unit standard costs for rackets SR and TR.
(ii) Direct material (wood & gut) price variance. .
(iii) Direct material (wood &hut) usage variance.
(iv) Other materials cost variance.
s(v) Direct labour rate variance.
(vi) Direct labour efficiency variance. -
(vii) Variable overhead efficiency & expenditure variances.
(viii) Fixed overhead expenditure & volume variances.

Question No 5:-

Adnan Limited is a manufacturer of specialized furniture and has recently introduced a new product. The production will commence on January 1, 2010. 200 workers have been trained to carry out the production. The complete unit will be produced by a single worker and it would take 40 hours to produce the first unit. The company expects a learning curve of 95% that will continue till the production of 64 units. Thereafter, average time taken for each unit will be 28 hours.

Each worker would work for an average of 174 hours each month. They will be paid @ Rs. 100 per hour. In addition, they will be paid a bonus equivalent to 10% of their earnings provided they work for at least three months during the year. The cost of material and overhead per unit has been budgeted at Rs. 10,000 and Rs. 4,000 per unit, respectively.

The company's workers are in high demand and it is estimated that 20% of the workers would leave by the end of March 2010 whereas a further 7 workers would retire on June 21, 2010. The management is confident that all the units produced would be sold.

Required:
Calculate the minimum price that the company should charge if it wants to earn gross profit margin of 20% on selling price during the year 2010.

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