THE INSTITTUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF PAKISTAN (ICPAP)

Stage	**Professional**	Course Code	**P-503**
Examination	**Winter-2011**	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:-

BDT Company's accountant provides you with the following data for its engine division:

Division assets

Cash	Rs 250,000
Inventories	330,000
Property, plant and equipment, net	2,800,000

Per engine

Variable costs	Rs 125
Fixed costs (based on a normal volume of 50,000 engines)	Rs 15

The accountant also informs you that 10,000 of the 50,000 engines produced annually are usually sold to the boat division of the company. Currently, the two division managers cannot agree on the price at which these engines should be sold. The boat division's manager has offered to pay Rs135, claiming that he can purchase these engines from another company at that price. The engine division's manager feels that the boat division should pay Rs150, the current sales price to external customers.

An analysis shows that the engine division can reduce costs of Rs7, 000 of inventories, Rs 25, 000 in plant assets, and Rs 25,000 in fixed costs if the manager does not sell to the boat division. These cost reductions will result in an increase in cash of the same amounts.

Required

A. Indicate whether the engine division should sell to the boat division at a transfer price of Rs.135. Show your calculations. **4**

B. Assume that management decides that the engines will be sold to the boat division using a transfer price of Rs 135. Calculate at what price the 40,000 engines should be sold to external customers to achieve a 10% return on assets of the engine division. **4**

C. Name *two* advantages and *two* disadvantages of decentralization. **4**

D. In transfer pricing what is common conflict between a division and the company as a whole. **5**

E. What are the objectives of **Transfer Pricing**? **3**

Question No 2:-

A) Global Paper Inc. is a major distributor of fine paper as well as specialty paper used for food packaging and graphic arts. Currently the company operates its own fleet of trucks, but it is considering outsourcing the delivery to an external transportation company.

As the new assistant controller, you have been asked to help the CEO decide whether Global should keep operating its own fleet or outsource the delivery activities to an external supplier.

Required

A) Decision framing leads to optimal decisions when managers follow the three principles of consistent framing. List the *three* principles of consistent framing and outline how *each* principle can be employed to help the CEO make the best decision for the company**.** **8**

B) What are the various stages/steps to be taken in the implementation of **TQM**? How does TQM facilitate value addition in an Organization? **12**

Question No 3:-

TeleTech Inc. manufactures halogen lamps for parking lots. On March 1, there was no beginning inventory of direct materials and no beginning or ending inventory of work in process. TeleTech uses a just-in-time (JIT) production system and back flush costing with three trigger points for making entries in the accounting system:

- ✓ Purchase of direct materials debited to inventory/materials and in-process control
- ✓ Completion of finished units of product debited to finished goods control
- ✓ Sale of finished goods

TeleTech's **standard cost per lamp** is direct materials, Rs 20, and **conversion costs**, Rs 17. The following data applies to the month of March manufacturing:

Direct materials purchased	Rs 520,000
Conversion costs incurred	Rs 390,000
Number of finished units manufactured	20,000
Number of finished units sold	18,000

Required

A. Prepare summary journal entries for March (without disposing of under- or over-allocated conversion costs). Assume that there are no direct materials variances. **5**

B. Critics of backflush costing have raised some criticisms with the method. Identify *two* of these criticisms and indicate some arguments to counter these criticisms. **5**

C. Explain the steps in Vertical Linkage Analysis. **10**

Question No 4:-

A) Nicefit manufactures readymade garments by a simple process of cutting the clothes in various shapes and then sewing the corresponding pieces together to form the finished product. The sewing Department and the cutting department report to the production manager who along with Engineering Manager reports to the Director-Manufacturing. The Sales Manager, Publicity Manager and the Credit Manger report to the Director-Marketing, who along with Direct-Manufacturing reports to the Managing Director of the company.

The Accounts Department reports the following for the last quarter of 2003:

	Actual Rs.	Budgeted Rs.
Bad debt Losses	5,000	3,000
Cloth used	31,000	36,000
Advertising	4,000	4,000
Audit fees	7,500	7,500
Credit reports	1,200	1,050
Sales representative Travelling expenses	9,000	10,200
Sales commission	7,000	7,000
Cutting Labour	6,000	6,600
Thread	500	450
Sewing Labour	17,000	18,400
Credit Dep't. Salaries	8,000	8,000
Cutting utilities	800	700
Sewing utilities	900	950
Director Marketing salaries & Admn. Exp.	20,000	21,400
Production engineering expenses	13,000	12,200
Sales management office expenses	16,000	15,700
Production Manger office expenses	18,000	17,000
Direct Mfg. Salaries & Admn. Expenses	21,000	20,100

Using the above data, prepare responsibility accounting reports for the director marketing, the Director-manufacturing and the production manager. (15)

B) In a year, 15 workers are working in a dept. on a single shift basis. Statutory holidays in that year are 18. Normal maintenance requires 250 hrs. / p.m. The capacity utilization during last 5years.

2000	30,000	Labour hour (LHR)
2001	38,000	" "
2002	31,000	" "
2003	30,900	" "
2004	26,000	" "

Calculate capacity of the organization. (5)

Question No 5:-

A) Trident Toys Ltd. had drawn up the following Sales Budget for August, 2008

'Bravo 'Toys	5,000 units at Rs. 100 each
'Champion 'Toys	4,000 units at Rs. 200 each
'Super 'Toys	6,000 units at Rs 180 each

The actual sales for August, 2008 were:

'Bravo 'Toys	5,750 units at Rs. 120 each
'Champion 'Toys	4,850 units at Rs. 180 each
'Super 'Toys	5,000 units at Rs. 165 each

The costs per unit of Bravo, Champion and Super Toys were Rs. 90, Rs. 170 and Rs. 130respectively.

Analyze the variances to show:

(i) The effects on turnover: (8)

(i) Sales price variance
(ii) Sales mix variance
(iii) Sales quantity variance
(iv) Total sales value variance

(ii) The effects on profit: (8)

(i) Sales margin: Price variance
(ii) Sales margin: Mix variance
(iii) Sales margin: Quantity variance
(iv) Total sales margin variance.

B) There are two products **A** and **B**. The selling prices, variable costs and machine hours required per unit are:

	A	**B**
Selling price (Rs.)	2.00	2.50
Variable cost (Rs.)	1.00	1.50
Machine hours	2	1

Find the more profitable product when plant capacity is limited. (4)

****