THE INSTITTUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF PAKSITAN (ICPAP)

Stage	**Knowledge**	Course Code	**K-202**
Examination	**Summer-2011**	Course Name	**Cost and 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
AB Company produces and sells a product at a selling price of Rs.125. Its cost structure in constant price level terms is as follows:

Variable Cost per unit:

Material	Rs.50 per unit produced
Selling & Distribution	Rs.5 per unit sold

Semi-Variable Costs:

Labour	Rs.62,500 per month Plus Rs.10 per unit produced

Fixed Costs:

Overhead	Rs.62,500 per month

The company has been operating a system of marginal costing since its incorporation. It has now been decided to review the system and to compare it with absorption costing system.

You have been appointed as Management Accountant to prepare estimates of company.s profit in constant price level terms in following different hypothetical situations over a period for two months:

(Quantity in Units)

Situations:		**(2)**	
Period:	**(1)**		
	Constant for 2 months	**December**	**January**
Opening Inventory	250	250	1,500
Production	2,500	2,500	2,500
Sales	2,500	1,250	3,000
Closing Inventory	250	1,500	1,000

It is assumed that all fixed overheads relate to production while selling and distribution costs are related to units sold.

Required:
(a) Calculate the production cost for inventory valuation purpose under variable and absorption costing systems. **(10)**
(b) Prepare income statements for each of the two months of December and January in above two situations with fixed cost recovery based on a normal production level of 2,500 units per month using:

(i) Marginal costing system; and
(ii) Absorption costing system **(10)**

Question No 2
(a) Define the term 'Throughput time'.

(b) A company keeps careful track of time relating to orders and their production. During the month of October 2010, the following average times were recorded for ach order:

	Days
Wait time	17.00
Inspection time	0.50
Move time	0.50
Process time	2.00
Queue time	5.00

Goods are shipped as soon as production is completed.

Required:
Compute the following:
(i) Throughput time 02
(ii) Manufacturing cycle efficiency 02
(iii) Percentage of non-value-added time 02
(iv) Delivery cycle time

Question No 3
(a) Define the terms Basic, Ideal and Currently Attainable Standards. Which one of them is normally recommended for standard costing?

(b) XYZ Company manufactures a product by mixing two materials. Standard material cost per unit of the product is as follows:

Material A (4 litres @ Rs.10 per litre) Rs.40
Material B (6 litres @ Rs.12 per litre) Rs.72
In September 2010, the actual materials used were 328 litres and 410 litres of A and B respectively. The actual output was 72 units of the finished product.

Required:
Calculate the following:
(i) Total Material Mix Variance. 03
(ii) Total Material Yield Variance. 03

(c) Anwar & Company sells three products. Following is the relevant information for the month of October 2010:

Product	Budgeted sales units	Budgeted prices (Rs)	Actual sales units
A	200	50	216
B	300	25	330
C	500	18	442

Required:
Calculate sales mix variance.

(d) A company operates a standard costing system. The following information has been extracted from the standard cost card of one of its products:

Material cost (5 Kg. @ Rs. 20.50 per Kg.)	Rs.102.50 per unit
Budgeted production	1,200 units

Actual results for the month of October 2010 were as follows:

Material cost (purchased and used) 5,500 Kgs. @ Rs. 22 per Kg. Rs.121,000
Actual production (units) 1,000
Market price of the material was Rs.22.50 per kg. during the month.

Required:
Calculate the following:
(i) Planning variance (consider quantity purchased as the standard quantity for actual production).

(ii) Material usage variance.

Question No 4
A garment manufacturing company is facing cash flow problem and is planning to avail a running finance facility on need basis. Following are the monthly sales forecasts and estimation of material and labour costs:

Rs. .000.

Month	Sales Forecasts	Material and Labour Costs
November 2010	360	160
December 2010	360	180
January 2011	720	252
February 2011	1,080	1,764
March 2011	1,440	612
April 2011	720	468
May 2011	720	324
June 2011	180	80
July 2011	360	120

Collection estimates of marketing department are as follows:

- within the month of sale - 10%
- in the month following the sale - 75%
- in the second month following the sale - 15%

Payments of material and labour are made during the following month in which these costs have been incurred.
Administrative salaries will amount to approximately Rs.60,000 per month.
Monthly lease payments under short-term lease contract will be Rs.20,000.
A progressive payment of Rs.400,000 must be paid in April 2011 for new equipment.

Other monthly and periodical estimations:

- Miscellaneous expenses Rs.6,000.
- Depreciation charges of Rs.40,000 upto March 2011 and Rs.44,000 from April, 2011.
- Advance Income Tax of Rs.50,000 due in the month of March and June, 2011.

Cash and bank balances on January 01, 2011 will be Rs.140,000 and same will be required to maintain throughout the period.

Required:

(a) Prepare a monthly cash budget for first 6 months of 2011, in a columnar format.
(b) Offer your comments and suggestions on borrowing and/ or short term deposits for the company.

Question No 5

Shekel Ltd. manufactures fake "designer style" clothing in its factory in Faisalabad. The Manager has just received the following report on production activity for July 2009. This information relates to one single product the "X".

	Standard	**Actual**
Sales of Product X (units)	12500	12500
Selling Price per unit	100	105
Raw Material used	50000 m	49250 m
Raw Material cost	Rs. 10/m	Rs. 11/m
Labour Time	37500 hrs	36000 hrs
Rate of Payment	Rs. 9/hr	Rs. 9.25/hr
Variable overhead (overhead absorption rate)	Based on 50% of labour cost	Actual cost Rs 173,500
Fixed overhead (No absorption basis provided)	Rs. 200,000	Rs. 210,000

REQUIRED:

(a) Prepare a statement showing the budgeted profit or loss for July 2009. (3)
(b) Prepare a statement showing the actual profit or loss for July 2009. (3)
(c) Prepare an Operating Statement reconciling the budgeted and actual profit and calculate all variances in as much detail as the information permits. (14)

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