SIR AURTHUR LEWIS COMMUNITY COLLEGE
DIVISION OF TECHNICAL EDUCATION AND MANAGEMENT STUDIES

EXAMINATION SESSION	:	May 2001, Final Examination
TUTORS	:	Mrs. F. Beerom-Henry, Mr. J Moore
PROGRAMME TITLE	:	Business Studies – Diploma
PROGRAMME CODE	:	BUS 351
COURSE TITLE	:	Introduction to Management Accounting – Paper II
COURSE CODE	:	IMA 321
CLASS (ES)	:	Year 2
DATE	:	Wednesday 16th May, 2001
TIME	:	9:00 – 11: 00 a.m.
DURATION	:	2 hrs
ROOM (S)	:	Conference Room
INVAILILATOR (S)	:	Mrs. M. Lashley, Mr. N. Goolaman

INSTRUCTIONS

1. Six (6) long answer questions are contained in this paper.
2. Candidates are required to answer any **four (4)** complete questions.
3. Use of silent electronic calculators is permitted.
4. Begin each question on a new foolscap page.
5. Borrowing or lending is prohibited.

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Question 1

a) Explain two (2) advantages and two (2) disadvantages of FIFO method of stock valuation.

(4 marks)

b) Explain two (2) advantages and two (2) disadvantages of LIFO method of stock valuation.

(4 marks)

c) A retailer sells a large variety of products in its chain of store. Information about one of the retailer's product is as follows:

Maximum daily sales	300 units
Average daily sales	240 units
Economic order quantity	5000 units
Maximum delivery period	20 days
Average delivery period	16 days

REQUIRED:

Calculate the average stockholding in units.

(7 marks)
[Total 15 marks]

Question 2

Barons Foods produce Curry Powder in two processes, Process **C** and Process **P**. The following information relates to Process P for period 4.

Work in Progress (start of period)	Nil
Materials transferred from Process C during period	2,500 lbs valued at $7,145
Wages paid	234.5 hours @ $4.00 /hr
Other direct costs allocated	$463
Normal loss during processing	5% of Process C input

- Scrap has a value of $0.16/lb and is credited to the process account.
- At the end of period 4, there were 2,100 lbs transferred to finished goods, and 150 lbs remained in Work in Progress.
- The Work in Progress is 100% complete so far as materials are concerned, but only 80% of labour costs and 60% of other costs have so far been incurred.

REQUIRED: ***(show all workings clearly)***

a) Process P Account

(9 marks)

b) Abnormal loss/gain Account

(4 marks)

c) Scrap Account

(2 marks)
[Total 15 marks]

Question 3

A four-week summary production budget for B & d Ltd, which makes cement is as follows:

Production quantity	240,000 sacks
Production costs:	
Material	336,000 lbs @ $4.10/lb
Direct labour	216,000 hrs @ $4.50/hr
Overheads	$1,912,000

Overheads are absorbed at a predetermined direct labour hour rate.

During the four-week period, the actual production was 220,000 sacks, which incurred the following costs:

Material	313,060 lbs costing $1,245,980
Direct labour	194,920 hrs costing $886,886
Overheads	$1,934,940

REQUIRED:

a) Material price variance
(2 marks)

b) Material usage variance
(2 marks)

c) Direct labour rate variance
(2 marks)

d) Direct labour efficiency variance
(2 marks)

e) Overhead head variance
(2 marks)

f) Give three (3) reasons why the direct labour efficiency variance may have arisen and two (2) reasons why the material usage variance may have arisen.
(5 marks)
[Total 15 marks]

Question 4

A Ltd commenced business on 1 June making a single product. The budgeted cost of one unit is as follows:

	$
Direct labour	5
Direct material	8
Variable production overhead	2
Fixed production overhead	5
Standard Production Cost	20

The fixed production overhead figure has been calculated on the basis of a budgeted normal output of 36,000 units per annum.

All budgeted fixed expenses are incurred evenly over the year – June and July are to be taken as equal period months.

Selling, distribution and administrative expenses are as follows:

Fixed	$120,000 per annum
Variable	15% of the sales value

The selling price per unit is $35.00 and the number of units produced and sold was as follows:

	June (Units)	July (Units)
Production	2,000	3,200
Sales	1,500	3,000

REQUIRED:

Prepare profit statements for the month of **July** using the following methods:

a) Marginal costing

(6 marks)

b) Absorption costing

(9 marks)
[Total 15 marks]

Question 5

A draft budget for a company with four production centers included the following data for the year:

Cost Centre	Directly Allocated Overhead $	Apportioned Overhead %	Direct Labour Hours
A	32,800	20	60,000
B	45,200	40	75,000
C	28,400	10	30,000
D	14,400	30	100,000

The total overheads to be apportioned amounted to $352,000.

As a result of technical developments, it was decided to reorganize the production centers. A revised budget was therefore developed incorporating the following changes from the draft budget above:

i) A new cost center E was established.
ii) $13,200 of overhead previously allocated directly to cost center A is to transferred to cost center E.
iii) An additional $30,000 of overheads is to be allocated directly to cost center E.
iv) An additional $60,000 of overhead will be incurred and should be apportioned as follows:

Cost Centre	A	B	C	D	E
%	-	10	10	20	60

v) Overhead will now be absorbed on a machine hour rate for all cost centers except cost center A. Revised budgeted hours are:

Cost Centre	A	B	C	D	E
Machine hours	-	40,000	17,400	60,000	22,500
Direct labour hours	50,000				

REQUIRED:

a) Calculate for each cost center the overhead absorption rate on the basis of direct labour hours as per draft budget.

(5 marks)

b) Calculate for each cost center the overhead absorption on the basis of direct labour hours and/or machine (as relevant) as per revised budget.

(10 marks)
[Total 15 marks]

Question 6

Atil Co. is ready to begin its third quarter, in which peak sales occur. The company has requested a $40,000, 90-day loan from NCB to help meet its cash requirements during the quarter. Atil Co. has experienced difficulty in paying off its loans in the past, the loan officer at NCB has therefore asked the company to prepare a cash budget for the quarter. In response to this request, the following data has been assembled:

i) On July1, the beginning of the third quarter, the company will have a cash balance of $44,500.

ii) Actual sales for the last two months and budgeted sales for the third quarter are as follow:

May (actual)	$250,000
June (actual)	300,000
July (budgeted)	400,000
August (budgeted)	600,000
September (budgeted)	320,000

Past experience shows that 25 percent of a month's sales are collected in the month of sale, 70 percent in the month following the sale, and 3 percent in the second month following the sale. The remainder is uncollectible.

iii) Budgeted purchases of raw material and budgeted expenses for the third quarter are given below:

	July	**August**	**September**
	$	**$**	**$**
Raw material purchases	240,000	350,000	175,000
Labour cost	45,000	50,000	40,000
Advertising	130,000	145,000	80,000
Rent	9,000	9,000	9,000
Depreciation	10,000	10,000	10,000

Raw material purchases are paid in full during the month following the purchase. Accounts payable for raw material purchases for June total $180,000.

iv) Motor Vehicle costing $10,000 will be purchases for cash during July.

v) The loan of $40,000 will be acquired in July and repaid in September. Interest on the loan total $1,200.

REQUIRED:

a) Prepare a Cash Budget **by month** and **in total**, for the third quarter.

(13 marks)

b) If the company needs a minimum cash balance of $20,000 to start each month, can the loan be repaid as planned? Explain.

(2 marks)
[Total 15 marks]

END OF EXAMINATION

Statement of Cost and Equivalent Units

	Total Units		Cost Element					
	Input	Output	%	EU	%	EU	%	EU
Opening WIP								
Units introduced/ transferred in								
Normal loss								
Abnormal loss/ (Abnormal gain)								
Completed units/ transferred out/ finished goods								
Closing WIP								
Total								
Equivalent Units								
Total Cost								
CPU								

……………………………………

CASH BUDGET

for the period ……………………… to …………………………
