

SIR ARTHUR LEWIS COLLEGE
DIVISION OF TECHNICAL EDUCATION AND MANAGEMENT STUDIES

EXAMINATION SESSION : December 2004, Final Examinations
TUTORS : F. Beerom-Henry, F. Ephraim, U. Joseph
PROGRAMME TITLE : Associate Degree - Business Administration
PROGRAMME CODE : 3BS-ABA-AD
COURSE TITLE : Introduction to Management Accounting
COURSE CODE : ACC203
CLASS(ES) : Year 2 #A18
DATE : Tuesday December 7, 2004
TIME : 9:00 am
DURATION : 3 hrs
ROOM(S) : CEHI-1H-02, OTW R2
INVILGILATOR(S) : U. Joseph, F. Beerom-Henry, F. Ephraim
M. Plummer, A. Jean



INSTRUCTIONS

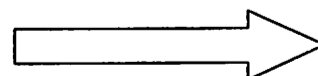
Section 1 - There are **twenty (20)** multiple choice questions in this section. On the answer sheet provided **shade** the letter **a, b, c, or d** that carries the correct response.

Section 2 - There are six (6) long answer questions in this section. Candidates are required to answer **any four (4)** complete questions.

Use of silent electronic calculators is permitted.

Begin each question on a new foolscap page and use forms provided when necessary.

Borrowing or lending is prohibited.



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Section 1

Instructions: There are twenty (20) multiple choice questions in this section. On the answer sheet provided shade the letter **a, b, c, or d** that carries the correct response.

1. The entry to record the cost of materials placed into production is:
 - (a) Dr Raw material inventory Cr Accounts payable/cash
 - (b) Dr Raw material inventory Cr Work in process
 - (c) Dr Work in process Cr Accounts payable/cash
 - (d) Dr Work in process Cr Raw material inventory

 2. A statement of planned cash receipts and disbursements is called a(n):
 - (a) Cash budget (b) Disbursement schedule
 - (c) Cash collections schedule (d) Master budget

 3. A variance is considered to be the difference
 - (a) between current operating costs and last year's operating costs
 - (b) between budgeted amounts and actual amounts
 - (c) between the budgeted budget and the final adjusted budget
 - (d) allowed in the current production budget


 4. A sunk cost is a cost
 - (a) committed to be spent in the current period
 - (b) which is irrelevant for decision making
 - (c) connected with oil exploration in Trinidad
 - (d) unaffected by changes in the level of activity


 5. The process of cost apportionment is carried out so that
 - (a) common costs are shared among cost centers
 - (b) cost may be controlled
 - (c) cost units gather overheads as they pass through cost centers
 - (d) whole units of costs can be charged to cost centers

 6. Depreciation is not included in the cash budget because
 - (a) it is not paid until the end of an asset's life
 - (b) it cannot be known accurately until the end of the asset's life
 - (c) it is not an actual cash flow
 - (d) the same amount is charged each year therefore it is cancelled out

 7. Over applied overhead occurs when
 - (a) applied overhead exceeds actual overhead
 - (b) applied overhead exceeds budgeted overhead
 - (c) actual overhead exceeds budgeted overhead
 - (d) budgeted overhead exceeds applied overhead

 8. Which of the following would be the most appropriate basis for applying rent expense to cost centers?
 - (a) Number of employees per cost center
 - (b) Floor area of the cost centers
 - (c) Revenue earned by each cost center
 - (d) Space occupied by machines in each cost center

 9. The basis on which a sales budget is prepared is the
 - (a) expected sales volume
 - (b) previous year's sales revenue
 - (c) sales necessary to produce the forecast profit
 - (d) previous year's sales revenue plus an addition for anticipated price increases
- 

10. The type of spoilage that occurs under efficient operating conditions and is ordinarily uncontrollable is called
- (a) abnormal loss
 - (b) normal loss
 - (c) seasonal loss
 - (d) standard loss
11. Conversion cost includes:
- (a) Direct materials plus total overheads
 - (b) All direct costs plus factory overheads
 - (c) Direct labour plus factory overheads
 - (d) Direct labour, direct materials and direct expenses
12. In activity based costing systems, cost are accumulated by activity using
- (a) cost drivers
 - (b) cost centers
 - (c) cost pools
 - (d) cost benefit analysis
13. Which of the following is **not** generally used when costing jobs?
- (a) actual labour costs
 - (b) actual material costs
 - (c) actual manufacturing overhead
 - (d) applied manufacturing overhead
14. A flexible budget is
- (a) the only suitable budget for control purposes
 - (b) a budget designed to analyzed fixed and variable elements
 - (c) designed to change in accordance with the level of activity actually attained
 - (d) all of the above
15. A firm has to pay \$0.20 per unit royalty to the inventor of a device which it manufactures and sells. The royalty charge would be classified in the firm's accounts as a/an
- (a) selling expense
 - (b) direct expense
 - (c) production overhead
 - (d) administrative overhead
16. The term used to describe goods moving out of work in progress and into finished goods is
- (a) raw materials
 - (b) work in process
 - (c) cost of goods sold
 - (d) cost of goods manufactured
17. A factory profit is
- (a) credited in the manufacturing account and debited to the profit and loss account
 - (b) debited in the manufacturing account and credited to the profit and loss account
 - (c) debited in the manufacturing account and debited to the profit and loss account
 - (d) ignored in both the manufacturing and profit and loss accounts
18. A business should value its stock at lower of
- (a) cost and net realizable value
 - (b) selling price and net realizable value
 - (c) cost and replacement value
 - (d) net realizable value and replacement cost
- 

19. Variable costs
- ~~(a)~~ vary per unit
 - (b) are fixed in total
 - (c) decrease in total as production increases
 - (d) are fixed per unit and vary in total
20. The level of sales at which revenues equal expenses and net income is zero is called the
- (a) margin of safety
 - (b) contribution margin
 - ~~(c)~~ break-even point
 - (d) indifferent point

(20 marks)

Section 2

Instructions: Answer any FOUR (4) complete questions from this section

Question 1

You are a small business entrepreneur who has just approached Bank of St. Lucia with a request for a \$30 000, 90-day loan. The purpose of the loan is to assist your business in acquiring inventories to support peak Christmas sales. The loan officer has asked you for a cash budget to help determine whether the loan should be made.

The following data are available for the months December 2004 – February 2005 during which time the loan will be used:

- a) On December 1, the start of the loan period, the cash balance will be \$26 000.
- b) Accounts receivable (debtors) on December 1 will total \$151 500, of which \$141 000 will be collected during December and \$7 200 will be collected during January. The remainder will be uncollectible.
- c) Past experience has shown that 20% of a month's sales are collected in the month of sale, 75% in the month following sale, 4% in the second month following sale, and the balance is uncollectible.
- d) Merchandise purchases are paid in full during the month following purchase.
- e) Accounts payable (creditors) for merchandise purchases on November 30, 2004 which will be paid during December amount to \$108 000.

f)	Dec '04	Jan '05	Feb '05
Sales	200 000	300 000	250 000
Merchandise purchases	120 000	180 000	150 000
Wages	9 000	9 000	8 000
Lease payments	15 000	15 000	15 000
Advertising	70 000	80 000	60 000
Computer purchases	8 000	-	-
Depreciation	10 000	10 000	10 000

- g) In preparing the cash budget, assume that the loan will be made on December 1 and repaid (principal plus interest) in February. Interest on the loan will be \$2 250.

Required:

- i) Prepare a schedule of budgeted cash collections for the 3-month period December -- February. (3 marks)
- ii) Prepare a Cash Budget for the three-month period December - February. *Use form provided.* (12 marks)

[15 marks]

Question 2

Horace Ltd produces a single product which undergoes two processes. The following details relate to Process A and Process B for one period.

Process A

Raw materials (10 000 lbs)	\$ 4 800
Labour costs	16 000
Overhead costs	200% of labour costs
Normal loss	20% of raw materials input
Output for period	7 500 lbs

Process B

Raw materials (8 000 lbs)	\$ 5 962
Labour costs	3 506
Overhead costs	100% of labour costs
Normal loss	10% of raw materials input
Output for period	15 400 lbs

Units lost, have a scrap value of \$1.80 for Process A and \$2.00 for Process B. There was no opening or closing work in process.

Required:

- a) Process Accounts (12 marks)
- b) Abnormal Loss/ Gain Account(s) (3 marks)
- [15 marks]

Question 3

Glo-Ho Dynamics produces a single product. The standard costs for one unit of product are:

Direct Materials (6 ounces @ \$0.50 per ounce)	\$ 3
Direct Labour (1.8 hours @ \$10 per hour)	18
Variable Overhead (1.8 hours @ \$5 per hour)	<u>9</u>
	<u>\$30</u>

During the month of October, 2 000 units were produced. The costs associated with this level of production for October were as follows:

Materials purchased: 18 000 ounces @ \$0.60 per ounce
Material used in production: 14 000 ounces
Direct labour: 4 000 hours @ \$9.75 per hour
Variable Overhead cost incurred: \$20 800.

Required:

Compute the following variances for the month of October:

- a) Material Price and Usage Variances (5 marks)
- b) Labour Rate and Efficiency Variances (5 marks)
- c) Variable Overhead Spending and Efficiency Variances (5 marks)
- [15 marks]

Question 4

- a) Rebecca Allen, the president of Allen Mechanical, has asked you for information about the cost behaviour of manufacturing support costs. Specifically, she wants to know how much support cost is fixed and how much is variable. The following data are the only records available:

Month	Machine Hours	Support Costs
May	900	\$ 9 200
June	1 300	12 800
July	1 100	8 300
August	1 200	10 000
September	1 500	11 200

Required:

Find the monthly fixed support cost and the variable support cost per machine hour using the high-low method.

(6 marks)

- b) Silver Wood furniture Company when operating at full capacity can produce 2 000 dining room sets per year. The following are its annual cost data at full capacity.

MOH	Indirect materials, factory	\$ 6 000
MOH	Carpenter Wages	118 000
P+L	Advertising	50 000
MOH	Factory supervisor wages	40 000
	Property taxes (factory building)	3 500
P+L	Salesmen commission	80 000
MOH	Insurance, factory	2 500
MOH	Depreciation (SLM) – Office Equipment	4 000
	- Factory Building	10 000
	Lease cost, factory equipment	12 000
P+L	General office supplies	3 000
MOH	Materials used (Wood, bolts, etc)	94 000
MOH	Utilities, factory	20 000

Required:

Complete the Cost Summary Sheet provided. Total each column at the end. *Use form provided. The first item of cost is done as an example.*

(9 marks)

[15 marks]

Factory Power	2 160
Rent, Rates and Insurance	2 880
Office Salaries	3 720
Provision for Bad Debts	100
Provision for unrealized profit on stock Jan 01, 2003	800
Carriage outwards	400
General expenses	700
Bank charges	200

Additional information:

1. Goods manufactured were transferred to the Trading Department at a profit of 10% on factory cost.
2. Stock on hand Dec 31, 2003: Raw materials \$9 800

Work-in-progress	3 080
Finished goods	5 940
3. Provision for depreciation on Plant and Machinery - \$2 560.
4. It is estimated that 80% of the rent, rates and insurance relates to the factory and 20% to the general office.
5. Provision for unrealized profit at Dec 31, 2003 - \$1 250.

Required

Prepare a Manufacturing, Trading and Profit and Loss Account for the year ended December 31, 2003. *Use form provided.*

[15 marks]

END OF EXAM