Series 2 Examination 2008

CERTIFICATE IN MANAGEMENT ACCOUNTING

Level 3

Monday 26 May

Subject Code: 3623/M

Time allowed: **3 hours**

INSTRUCTIONS FOR CANDIDATES

- Answer **5** questions.
- All questions carry equal marks.
- Write your answers in blue or black ink/ballpoint. Pencil may be used only for graphs, charts, diagrams, etc.
- Begin your answer to each question on a new page.
- All workings must be shown.
- All answers must be correctly numbered but need not be in numerical order.
- You may use a calculator provided the calculator gives no printout, has no word display facilities, is silent and cordless. The provision of batteries and their condition is your responsibility.

QUESTION 1

(a) Explain, in the context of standard costing, the meaning and usefulness of:

(i) ideal standards

(ii) attainable standards. (6 marks)

(b) Define, with examples, the term semi fixed cost (also termed semi variable cost or mixed cost) and state two ways in which the fixed and variable elements of such costs can be segregated. (6 marks)

(c) State reasons why organisations decentralise. (8 marks)

(Total 20 marks)

QUESTION 2

A company has budgeted to sell 200,000 units of its single product in the forthcoming year at a selling price of RM20 per unit. The variable cost per unit will be RM12. The company's budgeted fixed costs are RM1,000,000 for the year.

REQUIRED

(a) Calculate for the year in units:

(i) the budgeted break-even point (3 marks)

(ii) the budgeted margin of safety. (2 marks)

(b) Explain the significance of both the break-even point and the margin of safety. (4 marks)

(c) Calculate the increase in budgeted sales units required:

(i) to increase the existing budgeted profit by one third (3 marks)

(ii) to maintain the existing budgeted profit if the company now budgets for an advertising campaign at a cost of RM 250,000. (2 marks)

(d) Calculate the selling price that will be required, assuming that sales units remain at 200,000, to maintain the **origina**l budgeted profit if the advertising campaign in (c) goes ahead and the variable cost per unit increases by RM1 per unit. (6 marks)

(Total 20 marks)

QUESTION 3

A company is preparing budgets. The company makes and sells a single product.
The details of the product are:

Sales price	RM40 per unit
Direct material	RM5 per unit
Direct labour	RM10 per unit
Variable production overhead	RM6 per unit

The following information is also available:

- Budgeted sales and production (units)

Month	1	2	3	4	5	6
Sales	1300	1500	1700	1900	1800	1800
Production	1400	1500	1800	2000	2200	2200

- Fixed overhead is budgeted at RM7,000 per month, including depreciation of RM1,000
- Wages are paid 75% during the month in which they are earned, 25% in the month following
- Variable production overhead is paid in the month in which it is incurred
- Material costs are paid for two months after the material is used in production
- There is a tax liability of RM14,000 to be settled in Month 4
- The company will purchase and pay for a new van for RM20,000 in Month 3; the present van will be sold for RM3,000 receivable in Month 5
- Five per cent of each month's sales are for cash, the remainder are sold on credit, the debtors settling one month after sale
- No bad debts are anticipated
- The cash balance at the start of Month 3 is expected to be RM1,000 in hand.

REQUIRED

(a) Prepare a cash budget, by month, for the four month period from Month 3 to Month 6.

(15 marks)

(b) List 5 reasons why there may be a difference between the budgeted cash balance at the end of Month 6 and the budgeted profit for the period from Month 3 to Month 6.
(You are **not** required to calculate the budgeted profit)

(5 marks)

(Total 20 marks)

QUESTION 4

A company produces and sells a single product, the standard selling price and production costs are:

		RM per unit
Selling price		25
Direct material	1 kilo x RM7 per kilo	7
Direct labour	2 hours x RM4 per hour	8
Fixed overhead	2 hours x RM2 per hour	4

The figures for a recent period were:

Budgeted production and sales	20,000 units
Actual production	19,000 units
Actual units sold	18,800
Actual sales revenue	RM451,200
Actual direct material	19,000 kilos x RM6.8 per kilo = RM129,200
Actual direct labour	38,200 hours x RM3.8 per hour = RM145,160
Actual fixed production overhead	RM83,900

Raw material stocks were unchanged during the period.

REQUIRED

(a) Calculate for the period:

(i) the standard gross profit (2 marks)
(ii) the actual gross profit. (2 marks)

(b) Calculate the following variances for the period:

(i) Selling price variance (2 marks)
(ii) Sales volume profit (2 marks)
(iii) Material price (2 marks)
(iv) Labour rate (2 marks)
(v) Labour efficiency (2 marks)
(vi) Fixed production overhead expenditure (2 marks)
(vii) Fixed production overhead capacity (2 marks)
(viii) Fixed production overhead efficiency. (2 marks)

(**Total 20 marks)**

QUESTION 5

A company is considering a marketing campaign to run for five years for one of two products. The choice will be between product A or B.

The campaign will involve the payment of RM200,000 to an advertising agency at the start of the campaign; no other payment will be made to the agency. There is a limited advertising budget so only one product can be advertised.

Product A has a contribution to sales ratio of 40 %, and product B 33⅓ %. These are not expected to change over the life of the campaign.

There are no fixed costs specific to either product.

The agency has forecast the following increases in sales resulting from the campaign:

(RM000)	**A**	**B**
Year 1	87.5	660
Year 2	200	30
Year 3	225	30
Year 4	187.5	12
Year 5	50	9

The company's cost of capital is 10% per annum

Discount factors	**10%**	**20%**
Year 1	.909	.833
Year 2	.826	.694
Year 3	.751	.579
Year 4	.683	.482
Year 5	.621	.402

REQUIRED

(a) Calculate the Net Present Value of each product's marketing campaign (at the company's cost of capital).
(8 marks)

(b) Calculate the approximate Internal Rate of Return of each campaign using only the discount factors provided.
(6 marks)

(c) Recommend, with reasons, which campaign should be undertaken.
(2 marks)

(d) Explain why, when both campaigns have the same initial cost and the same life cycle, there should be differences in the ranking of the Net Present Values and Internal Rates of Return.
(4 marks)

(Total 20 marks)

QUESTION 6

A company jointly produces three products A, B and C in a single process. There is wastage in the process of 10% of input weight and the products emerge in the ratio: A 5 : B 3 : C 2.

For a typical month the following figures are available:

Direct material input	80,000 kg at RM 1.9 per kg
Direct labour	3,000 hours at RM 6 per hour
Variable production overhead absorption	3,000 direct labour hours at RM 3 per hour

Fixed production overhead absorption is 50% of direct labour cost.

Wastage is sold for scrap at RM 1 per kg this being credited to the process account.

There is no opening or closing work-in-progress or finished stock.

The products sell for A RM 15 per kg
B RM 12 per kg
C RM 10 per kg

REQUIRED

(a) Calculate the total gross profit for each of A, B and C, using each of the following methods to apportion the joint processing costs:

(i) Weight of output
(ii) Sales value of output (12 marks)

(b) B can be converted by further processing into Y, if financially worthwhile.
The selling price of Y would be RM15 per kg. The further processing would cost RM 1 per kg input. There would be a loss in the further processing of 10% of material input. This would have no value.

State with supporting figures whether product B should be further processed. (5 marks)

(c) In the context of process costing define:

(i) normal loss
(ii) abnormal loss.

State how each would be dealt with in the equivalent unit calculation. (3 marks)

(**Total 20 marks)**

