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**FINALTERM EXAMINATION**

**Spring 2010**

**MGT402- Cost & Management Accounting (Session - 2)**

**Time: 90 min**

**Marks: 69**

| Student Info |             |
|--------------|-------------|
| StudentID:   | MC090401478 |
| Center:      | OPKST       |
| ExamDate:    | 10 Aug 2010 |

| For Teacher's Use Only |   |   |   |   |   |   |   |   |       |
|------------------------|---|---|---|---|---|---|---|---|-------|
| Q No.                  | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | Total |



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|-------|----|----|----|----|----|----|----|----|--|
| Marks |    |    |    |    |    |    |    |    |  |
| Q No. | 9  | 10 | 11 | 12 | 13 | 14 | 15 | 16 |  |
| Marks |    |    |    |    |    |    |    |    |  |
| Q No. | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 |  |
| Marks |    |    |    |    |    |    |    |    |  |
| Q No. | 25 | 26 | 27 | 28 | 29 | 30 | 31 | 32 |  |
| Marks |    |    |    |    |    |    |    |    |  |
| Q No. | 33 | 34 | 35 | 36 | 37 | 38 | 39 | 40 |  |
| Marks |    |    |    |    |    |    |    |    |  |
| Q No. | 41 | 42 | 43 | 44 | 45 | 46 | 47 | 48 |  |
| Marks |    |    |    |    |    |    |    |    |  |
| Q No. | 49 | 50 | 51 | 52 | 53 |    |    |    |  |
| Marks |    |    |    |    |    |    |    |    |  |



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**Question No: 1 ( Marks: 1 ) - Please choose one**

BDH produced 30,500 units of Kisty (a product). Each unit of Kisty takes two units of component L. Component L is budgeted to cost Rs. 12 per unit. Current inventory of L is 4,000 units. BDH wants 6,000 units of L on hand at the end of the next year. How much will the direct materials budget show as the cost of materials to be purchased?

►Rs. 756,000

►Rs. 390,000

►Rs. 684,000

►Rs. 330,000

**Question No: 2 ( Marks: 1 ) - Please choose one**

Period costs are:

►Expensed when the product is sold

►Included in the cost of goods sold

►Related to specific period

►Not expensed

**Question No: 3 ( Marks: 1 ) - Please choose one**

In a job order cost system, the use of direct materials would be recorded as a debit to:

►Finished Goods inventory



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▶ Manufacturing Overhead

▶ Raw Materials inventory

▶ Work in Process inventory

**Question No: 4 ( Marks: 1 ) - Please choose one**

Which of the following is/are reported in production cost report?

▶ The costs charged to the department

▶ How the costs were assigned to the output?

▶ The equivalent units of production by the department

▶ All of the given options

**Question No: 5 ( Marks: 1 ) - Please choose one**

Which of the following is the best define a by-product?

▶ A by-product is a product arising from a process where the wastage rate is higher than a defined level

▶ A by-product is a product arising from a process where the sales value is insignificant by comparison with that of the main product or products

▶ A by-product is a product arising from a process where the wastage rate is unpredictable

▶ A by-product is a product arising from a process where the sales value is significant by comparison with that of the main product or products



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**Question No: 6 ( Marks: 1 ) - Please choose one**

Which of the following constitutes the basis on which joint costs are more frequently allocated?

- ▶ Physical volume of output
- ▶ Conversion costs
- ▶ Prime costs
- ▶ **Market value**

**Question No: 7 ( Marks: 1 ) - Please choose one**

Product cost under absorption costing is characteristically:

- ▶ Higher than under variable costing
- ▶ **Lower than under variable costing**
- ▶ Equal to variable costing
- ▶ Higher sometimes and lower sometimes than variable costing

**Question No: 8 ( Marks: 1 ) - Please choose one**

When production is less than sales, which of the following is **TRUE**?

- ▶ No change occurs to inventories for either absorption costing or variable costing methods
- ▶ **The use of absorption costing produces a higher net income than the use of variable costing**
- ▶ The use of absorption costing produces a lower net income than the use of variable costing
- ▶ None of the given options



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**Question No: 9 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ Company A's fixed costs were Rs. 42,000, its variable costs were Rs. 24,000 and its sales were Rs. 80,000 (8,000 units). What is the company's break-even point in units?

▶1,400 units

▶5,000 units

▶6,000 units

▶7,000 units

**Question No: 10 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ The Environmental Filter Company is planning to sell air filter systems for Rs. 2,500 per unit. Variable costs are Rs. 1,500 per unit and total fixed costs are Rs. 1,000,000. What is the value of sales necessary to break even?

▶Rs. 1,000,000

▶Rs. 2,000,000

▶Rs. 2,500,000

▶Rs. 5,000,000

**Question No: 11 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ All of the following are assumptions in constructing a Break even chart **EXCEPT**:

▶There is no change of time value of money

▶Price of cost factors remains constant



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► Long term period will be considered

► Cost is affected by volume

**Question No: 12 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ A plan expressed in financial terms may be known as a:

► Budget

► Final account

► Forecast

► Balanced scorecard

**Question No: 13 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ Which of the following is true for the direct labor cost budget?

► It is prepared from the sales budget

► It is prepared from the production budget

► In the direct labor budget, ending inventory is subtracted and beginning inventory is added

► The first line of the direct labor budget is total direct labor cost

**Question No: 14 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ Usually the first step in the production of the master budget is the:

► Sales forecast



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- ▶ Sales budget
- ▶ Cash budget
- ▶ Production budget

**Question No: 15 ( Marks: 1 ) - Please choose one**

Which of the following budget is the most important in service organizations?

- ▶ Production budget
- ▶ Merchandise purchases budget
- ▶ Direct labor budget
- ▶ Direct materials budget

**Question No: 16 ( Marks: 1 ) - Please choose one**

When using a flexible budget, a decrease in production levels within a relevant range:

- ▶ Decreases variable cost per unit
- ▶ Decreases total costs
- ▶ Increases total fixed costs
- ▶ Increases variable cost per unit

**Question No: 17 ( Marks: 1 ) - Please choose one**





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The managers of a firm are in the process of deciding whether to accept or reject a special offer for one of its products. A cost that is not relevant to their decision is the:

▶ **Variable overheads**

- ▶ Common fixed overhead that will continue if the special offer is not accepted
- ▶ Direct materials
- ▶ Fixed overhead that will be avoided if the special offer is accepted

**Question No: 18 ( Marks: 1 ) - Please choose one**

Costs that have been incurred include which of the following?

- ▶ **Only opportunity costs**
- ▶ Costs that have already been paid
- ▶ Costs that have been committed
- ▶ Both costs that have already been paid and committed

**Question No: 19 ( Marks: 1 ) - Please choose one**

Which of the following costs are always relevant in decision-making

- ▶ Avoidable costs
- ▶ Fixed costs
- ▶ **Sunk costs**
- ▶ None of the given options



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**Question No: 20 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ A company produces two chemicals in a joint process. Chemical A can be sold at split off while chemical B currently cost Rs. 12 per gallon for disposal. If chemical B is further processed, it would cost Rs. 17 per gallon. At what sale price would the company be in different between disposing of chemical B at split off and further processing the chemical?

►Rs. 5

►Rs. 17

►Rs. 29

►Rs. 7

**Question No: 21 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ Under which of the following, all cost of production is considered as product cost, regardless of whether they are variable or fixed in nature?

►Absorption costing

►Direct costing

►Marginal costing

►Variable costing

**Question No: 22 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ If units started in process are 25,000, units still in process are 5,000 and degree of completion is 100% materials & 40% conversation cost. Which of the following is Equivalent Production quantity of material?



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▶30,000 units

▶25,000 units

▶22,000 units

▶15,000 units

**Question No: 23 ( Marks: 1 ) - Please choose one**

Which of the following method is most commonly used for dealing with beginning work in process inventory units while preparing the Cost of Production Report?

▶FIFO Method

▶Cash Accounting Method

▶Accrual Accounting Method

▶LIFO Method

**Question No: 24 ( Marks: 1 ) - Please choose one**

A company ABC has a contribution to sales ratio of 35%, variable cost to sales ratio of 65% and a profit to sales ratio of 17%. What will be the margin of safety ratio?

▶48.6%

▶53.8%

▶26.2%

▶It can not be calculated from the given data



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**Question No: 25 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ All of the following are the examples of administrative expenses **EXCEPT**:

▶ **Salaries of employees**

▶ Utility bills

▶ Interest paid on debt

▶ Depreciation of office equipment

**Question No: 26 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ What kind of decision is made by management when there will be surplus cash in hand for a certain period?

▶ Investment decision

▶ Financing decision

▶ **Operational decision**

▶ Funding decision

**Question No: 27 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ Mr. Aslam is running his own personal Financial services business. He has been offered a job for a salary of Rs. 45,000 per month which he does not availed. Rs. 45,000 will be considered as:

▶ **Sunk Cost**

▶ Opportunity cost



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► Avoidable cost

► Historical cost

**Question No: 28 ( Marks: 1 ) - Please choose one**

Which of the following ratio is obtained by dividing Flexible budget at actual capacity to Original budget at normal capacity?

► Activity ratio

► Capacity ratio

► Profitability ratio

► Efficiency ratio

**Question No: 29 ( Marks: 1 ) - Please choose one**

Which of the following is used in decision making?

► Contribution margin approach

► Differential cost approach

► Fixed cost approach

► Both Contribution margin and Differential cost approach

**Question No: 30 ( Marks: 1 ) - Please choose one**

Given data that:

Work in Process Opening Inventory Rs. 20,000



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|                                   |         |
|-----------------------------------|---------|
| Work in Process Closing Inventory | 10,000  |
| Finished goods Opening Inventory  | 30,000  |
| Finished goods Closing Inventory  | 50,000  |
| Cost of goods sold                | 190,000 |

What will be the value of cost of goods manufactured?

- ▶Rs. 200,000
- ▶Rs. 210,000
- ▶Rs. 220,000
- ▶Rs. 240,000

**Question No: 31 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ Periodic inventory system is also known as:

- ▶Physical system
- ▶Perpetual inventory system
- ▶Continuous inventory system



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►None of the given options

**Question No: 32 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ Cost of material consumed under FIFO costing method is Rs. 5,000. Direct labor cost was Rs. 3,000 and Factory overhead was 150% of direct labor. 800 units sold @ Rs. 30 and per unit cost was @ Rs25.

**Required:** Calculate Profit with the help of given information.

►Rs. 4,000

►Rs. 3,000

►Rs. 5,000

►Rs 4,500

**Question No: 33 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ The annual demand for a stock item is 2,500 units. The cost of placing an order is Rs. 80 and the cost holding an item in stock is for one year is Rs. 15.

**Required:** What is the EOQ?

►163 units

►1250 units

►5,000 units

►160 units

**Question No: 34 ( Marks: 1 ) - Please choose one**



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\_\_\_\_\_ In cost accounting,  
Avoidable loss is charged to which of the following?

▶ **Factory over head control account**

▶ Work in process control account

▶ Marketing overhead control account

▶ Administration overhead control account

**Question No: 35 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ Inventory of Rs. 96,000  
was purchased during the year. The cost of goods sold was Rs. 90,000 and the ending inventory was Rs. 18,000.  
What was the inventory turnover ratio for the year?

▶ 5.0 times

▶ **5.3 times**

▶ 6.0 times

▶ 6.4 times

**Question No: 36 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ Consider the following  
data:





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|                       |          |
|-----------------------|----------|
| Normal wages          | Rs.600   |
| Overtime Payment      | Rs.11,00 |
| Total shift allowance | Rs. 100  |
| Over time premium     | ?        |

►Rs. 500

►Rs. 600

►Rs. 700

►Rs. 1200

**Question No: 37 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ Calculate  
predetermined factory overhead absorption rates with the help of given data.

| Items                 | Budgeted figure | Actual Figures |
|-----------------------|-----------------|----------------|
| Factory overhead (Rs) | 1,200,000       | ----           |
| Machine hours         | 200,000         | 28,000         |

►Rs. 43.00

►Rs. 0.20



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►Rs. 6.00

►Rs. 14

**Question No: 38 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ In which of the situation spending variance will give favorable result?

- Actual factory overhead is less than absorbed factory overhead
- Actual factory overhead is greater than absorbed factory overhead
- Budgeted factory overhead for actual volume is greater than actual factory overhead
- Absorbed factory overhead less than budgeted factory overhead for actual volume

**Question No: 39 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ If Budgeted FOH for actual volume is 740,000 and Actual factory overhead is Rs. 710,000 then difference of both will be:

- Volume variance of Rs. 30,000
- Spending variance of Rs. 30,000
- Overhead variance of Rs. 30,000



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► Idle capacity variance of Rs. 30,000

**Question No: 40 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ You are required to identify how many good units were outputs from the process.

|                      | Units |
|----------------------|-------|
| Units put in process | 4,000 |
| Lost units           | 500   |
| Units in process     | 200   |

► 3,300 units

► 4,000 units

► 4,200 units

► 4,500 units

**Question No: 41 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ Revenue from sales of the by-products can be listed on income statement as:



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- ▶ A deduction from the cost of goods of the main product
- ▶ All of the given options
- ▶ **Other income**
- ▶ Additional sales revenue

**Question No: 42 ( Marks: 1 ) - Please choose one**

Which of the given is (are) product costing approaches/techniques?

- ▶ Marginal costing
- ▶ Marginal and absorption costing
- ▶ Job order costing
- ▶ **Process costing**

**Question No: 43 ( Marks: 1 ) - Please choose one**

Income Statement  
Budget include(s) all of the following EXCEPT:



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- ▶ Selling & distribution expenses budget
- ▶ **General & administrative expenses budget**
- ▶ Financial charges budget
- ▶ Cash budget

**Question No: 44 ( Marks: 1 ) - Please choose one**

Which of the given rate is used in production cost budget?

- ▶ **Predetermined rate**
- ▶ Variable rate
- ▶ Fixed overhead rate
- ▶ Blanket rate

**Question No: 45 ( Marks: 1 ) - Please choose one**

Which of the given functional budget is **NOT** required to calculate budgeted income statement?

- ▶ **Cash budget**
- ▶ Cost of goods sold budget
- ▶ Sales budget



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►Selling & administrative expense budget

**Question No: 46 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ A cost that will not be incurred if an activity is suspended is called as:

►Avoidable cost

►Sunk cost

►Historical cost

►Opportunity cost

**Question No: 47 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ With reference to decision making, a business which has entered a binding contract to spend money in future, this incurred cost will be considered as which of the following?

►Historic cost

►Committed cost

►Binding cost

►Sunk cost



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**Question No: 48 ( Marks: 1 ) - Please choose one**

Flexible budget at actual capacity Rs. 73,400 and Actual cost incurred at actual capacity Rs. 76,500. Identify the Expenditure Variance with the help of given data.

►Rs. 3,100 Favorable balance

►Rs. 3,100 Unfavorable balance

►Rs. 149,900 Favorable balance

►Rs. 149,900 Unfavorable balance

**Question No: 49 ( Marks: 3 )**

A company is considering publishing a limited edition book bound in special leather. It has in stock the leather bought some years ago for Rs. 1,000. To buy an equivalent quantity now would cost Rs. 2,000. The company has no plans to use the leather for other purposes, although it has considered the possibilities:

- v Of using it to cover desk furnishings, in replacement for other material which could cost Rs. 900
- v Of selling it if a buyer could be found (the proceeds are unlikely to exceed Rs. 800).

What should be the opportunity costs?

2 year ago cost = Rs. 1000

Now it cost = Rs. 2000

In case of replacement: Rs. 900

In case sell = Rs. 800



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- 1) Opportunity cost =  $2000 - 900 = 1100$
- 2) Opportunity cost =  $2000 - 800 = 1200$

**Question No: 50 ( Marks: 3 )**

Following information is available for preparing the Direct Labour Cost Budget:

- No. of workers required = 10 workers
- Work performance = 160 hours
- Rate = Rs. 40 per hour

**Required:**

Calculate the estimated amount of direct labour cost to produce 2,400 units based on the above information.

**Question No: 51 ( Marks: 5 )**

| Production component | Rates              | Per unit Rate |
|----------------------|--------------------|---------------|
| Direct material      | 2.5 lbs @ Rs. 4.00 | Rs. 10.00     |





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|               |                   |          |
|---------------|-------------------|----------|
| Direct Labor  | .5 hr @ Rs. 16.00 | Rs. 8.00 |
| VOH           | .5 hr @ Rs. 4.00  | Rs. 2.00 |
| Fixed FOH     | Rs. 40,000        | Rs. 2.50 |
| Actual Output | 16,000 units      |          |
| Variable S&A  | Rs. 6.00 per unit |          |
| Fixed S&A     | Rs. 60,000        |          |
| Selling price | Rs. 40            |          |

Assume sales of 18,000 units.

**Required:** What is the profit under marginal costing method?

**Question No: 52 ( Marks: 5 )**

Hussain Corporation annually produces 10,000 units of assembly part number 206. An outside supplier has offered to manufacture the part at Rs. 9 per unit. If Hussain Corporation decides to buy the part, they will be able to rent the existing area for Rs. 8,000 per year. Listed below are Hussain's total costs to produce part 206:

|                 | Rs.  | Total (Rs.) |
|-----------------|------|-------------|
| Direct material | 2.50 | 25,000      |
| Direct Labor    | 4.00 | 40,000      |



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|                   |             |               |
|-------------------|-------------|---------------|
| Variable overhead | 2.25        | 22,500        |
| Fixed Overhead    | 0.75        | 7,500         |
| <b>Total</b>      | <b>9.50</b> | <b>95,000</b> |

Assuming that no additional costs are incurred in purchasing the part, what should be the opportunity cost for Hussain Corporation if it will buy? Support your answer with computations.

Yes.

If the outsider has offered 9 rupees per unit =  $9 \times 1000 = 90,000$

The total cost = 95000

It rent out = 8000

**The opportunity cost of 5000 has to be beared.**

**Question No: 53 ( Marks: 5 )**

Classify the following expenses as **Financial or Administrative expense** by filling the appropriate boxes?

| Expenses             | Nature of expense |
|----------------------|-------------------|
| Salaries of employee | Administrative    |



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|                                  |                     |
|----------------------------------|---------------------|
| Interest paid on debts           | Financial           |
| Utility Bills                    | Finance cost        |
| Depreciation of office equipment | Administrative cost |
| Interest paid on debentures      | finance             |