



THE INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF BANGLADESH  
CMA JUNE, 2017 EXAMINATION  
PROFESSIONAL LEVEL-I  
SUBJECT: 102. COST ACCOUNTING

Time: Three hours

Full Marks: 100

- ❖ All questions are to be attempted.
- ❖ Show computations, where necessary.
- ❖ Answer must be brief, relevant, neat and clean.
- ❖ Start answering each question from a fresh sheet.

**Q. No. 1**

- (a) Define cost object and give two examples.
- (b) "A figure indicating the total cost of production provides little useful information about company's operations". Explain this statement.
- (c) J.K. Paper Products (JKPP) produces three different paper products – Supreme, Deluxe, and Regular. Each product has its own dedicated production line at the plant. It currently uses the following three-part classification for its manufacturing costs: direct materials, direct manufacturing labor, and indirect manufacturing costs. Total indirect manufacturing costs of the plant for July, current year are Tk. 150 million (Tk. 20 million of which is fixed). This total amount is allocated to each product line on the basis of direct manufacturing labor costs of each line. Summary data (in millions) for July are as follows:

Particulars	Supreme	Deluxe	Regular
Direct material costs	Tk. 84.00	Tk. 54.00	Tk.62.00
Direct manufacturing labor costs	14.00	28.00	8.00
Manufacturing overhead costs	42.00	84.00	24.00
Units produced	80	120	100

**Required:**

1. Compute the manufacturing cost per unit for each product produced in July.
2. Suppose that in August production was 120 million units of Supreme, 160 million units of Deluxe, and 180 million units of Regular. Why might the July manufacturing unit cost information be misleading when predicting total manufacturing costs in August?

**[Marks: {(3+4)+ (8+5)} = 20]**

**Q. No. 2**

- (a) "There's no reason for me to get excited about the choice between the weighted-average and FIFO methods in my process-costing system. I have long-term contracts with my materials suppliers at fixed prices." Do you agree with this statement made by a plant controller? Explain.
- (b) Rifat & Sifat manufacturing company is a contract manufacturer for Zesty Dressing. The company uses a FIFO process costing system to account for the production of its salad dressing. All ingredients are added at the start of the process. Zesty provides reusable vats to the company for the completed product to be shipped to Zesty for bottling. So the company incurs no packaging costs. March, 2017 production and cost information for the Rifat & Sifat manufacturing company is as follows:

Gallons of dressing in beginning inventory (60% completed).....	2,000
Gallons started during the month .....	15,000
Gallons completed and transferred .....	13,200
Gallons in ending inventory (75% completed) .....	2,500
Lost gallon (Normal) .....	1,300

CMA JUNE, 2017 EXAMINATION  
PROFESSIONAL LEVEL-I  
SUBJECT: 102. COST ACCOUNTING

Q. No. 2 (cont'd.....)

**Costs:**

Beginning inventory:

Materials	Tk. 15,000.00	
Conversion	<u>1,620.00</u>	Tk.16,620.00

Current period:

Materials	Tk. 102,750.00	
Conversion	<u>19,608.75</u>	<u>122,358.75</u>
Total cost		<u>TK. 138,978.75</u>

It is to be noted here that the loss is detected by inspection that is done at 50% completion of the process.

**Required:**

- Equivalent Units of Production by cost component.
- Cost per equivalent unit by cost component
- Cost of gallon transferred
- Cost of March, 2017 ending inventory

[Marks: {4+(4+3+5+4)} = 20]

**Q. No. 3**

- "To ensure unbiased cost allocations, fixed costs should be allocated on the basis of estimated long-run use by user-department managers". Do you agree? Why?
- Why might a manager prefer that budgeted rather than actual cost-allocation rates be used for costs being allocated to his or her department from another department?
- The snowman ice company has two service departments and two producing departments  
Service departments total costs:

Department 1, Repair .....	Tk. 14,000
Department 2, Cafeteria .....	Tk. 11,000
Producing departments factory overhead costs:	
Department 10, Machinery .....	Tk. 52,500
Department 11, Assembly .....	Tk. 48,000

**Additional information:**

Department	Square feet	Estimated total Labor hours
Repair	1,500	3,375
Cafeteria	1,700	1,200
Machinery	2,000	2,300
Assembly	3,100	1,825

The costs of repair department are allocated on the basis of square feet. The costs of cafeteria department are allocated on estimated total labor hours. The Repair Department receives the services of cafeteria Department and Cafeteria Department also receives the services of Repair Department.

The producing departments uses estimated direct labor hours: 1,500 in department 10 and 1,250 in department 11.

**Required:**

- Allocate the total costs of the service departments to the producing departments by using a suitable method.
- Compute the factory overhead application rates for the two producing departments

[Marks: {(4+4) +(9+3)} = 20]

CMA JUNE, 2017 EXAMINATION  
PROFESSIONAL LEVEL-I  
SUBJECT: 102. COST ACCOUNTING

**Q. No. 4**

- (a) Describe the control characteristics of the three classifications in the ABC plan.
- (b) Sunflower Company sells a number of products to many restaurants in the area. One product is a special meat cutter with a disposable blade. Blades are sold in a package of 12 at Tk.20 per package. It has been determined that the demand for the replacement blades is at a constant rate of 2,000 packages per month. The packages cost of the company Tk.10 each from the manufacturer and required a three day lead time from date of order to date of delivery. The ordering cost is Tk.1.20 per order and the carrying cost is 10% per annum. The company uses the economic order quantity formula.

**Required:**

- (i) Compute the economic order quantity
- (ii) Compute the number of orders needed per year.
- (iii) Compute the cost of ordering and of carrying blades for the year.
- (iv) Determine the date on which the next order should be placed, assuming that there is no reserve (safety stock) and that the present inventory level is 200 packages. (360 days= 1 year)
- (v) Discuss the difficulties that most firms would have in attempting to apply the EOQ formula to their inventory problems.

**[Marks: {4+(2+2+3+4+5)} = 20]**

**Q. No. 5**

Shaw Wallace makes two wines: a regular wine and a premium wine. Shaw Wallace distributes the regular wine and the premium wine through different distribution channels. It distributes 2,40,000 cases of regular wine through 10 general distributors and 1,60,000 cases of the premium wine through 30 specialty distributors. Shaw Wallace incurs Tk. 42,60,000 in distribution costs. Under its existing costing system, Shaw Wallace allocates distribution costs to products on the basis of cases shipped.

To understand better the demands on its resources in the distribution area, Shaw Wallace identifies three activities and related activity costs.

- (a) Promotional costs-Shaw Wallace estimates it incurs Tk. 16,000 per distributor.
- (b) Order handling costs-Shaw Wallace estimates costs of Tk. 600 pertaining to each order. Shaw Wallace records show that distributors of regular wine place an average of 10 orders per year, whereas distributors of premium wine place an average of 20 orders per year.
- (c) Delivery costs- Tk. 8 per case.

**Required:**

- (1) Using Shaw Wallace existing costing system, calculate the total distribution costs and distribution cost per case for the regular wine and the premium wine.
- (2) Using Shaw Wallace activity-based costing system, calculate the total distribution costs and distribution cost per case for the regular wine and the premium wine.
- (3) Explain the cost differences and the accuracy of the product costs calculated using the existing costing system and the ABC system. How might Shaw Wallace management use the information from the ABC system to manage its business better?

**[Marks: (4+10+6) = 20]**

**= THE END =**