POKHARA UNIVERSITY

Faculty of Management

ACC 221 Basics of Managerial Accounting

Question Format

Section: A (Short Answer Questions)

Attempt all the questions. Give your answer in few lines. (10 X2 =20)

1. What do you mean by opportunity cost?
2. The algebraic equation for total cost is Y= a+bX. Define each element of the equation.
3. "A variable cost can be defined as one that changes." Comment.
4. What is meant by the term relevant range?
5. What is budgeted statement of cash receipt and disbursements?
6. Identify the two differences between management accounting and financial accounting.
7. From the mixed cost below, determine the variable cost rate and total fixed cost.

Month	Mixed Cost (Rs.)	Activity (in units)
January	8,100	700
February	7,500	500

8. A company is selling 2500 units of product which is also BEP level sales. The fixed cost and Variable cost per unit are Rs. 5000 and Rs. 2 respectively. Calculate the selling price per unit.

9. Calculate in units if the difference between sales and output assuming that profit reported by an organization was Rs. 12,12,550 under variable costing and Rs. 10,62,550 under absorption costing. The fixed overhead absorption rate was Rs. 12.5 per unit.

10. ABC Company has the following data regarding direct labor:
    Actual costs (6,400 hours @ Rs.30.5) Rs.1, 95,200. Standard allowed per unit produced, 1.5 hours. Standard price per direct labor hour Rs.30. Finished product are 4,000 units. Calculate direct–labor price variance.

Section: B Descriptive Answer Questions

Attempt any Six Questions. (10 X6 = 60)

1) A) Ralph farms produce X and Y products. Annual fixed costs are Rs. 14,400. The variable cost is Rs. 0.65 per unit of X and Rs.0.85 per unit of Y. X sales for Rs. 1 per unit and Y sales for Rs.1.35 per unit. Two of X products are produced for every unit of Y. Required:

Required: Compute the number of units of X and number of units of Y produced and sold at the break-even point.

B) Radisson Hotel has annual fixed cost applicable to its room of Rs.1.6 millions for its 200 rooms Hotel average daily room rents of Rs. 50 and average variable cost of Rs. 10 for each room rented. It operates 365 days per year.

i. How much net income on rooms will be generated, if the Hotel is completely full through the entire year?

ii. Compute the required number of rooms if the hotel want to earns profit of Rs. 2,00,000.

2) The FEWA Company makes high quality motor parts and the company's annual cost for 2,00,000 parts for last year as follows.

Direct material	Rs.50,00,000
Direct labor	19,00,000
Factory overhead variable	11,00,000
Factory overhead fixed	25,00,000
Total cost	Rs. 1,50,00,000

If FEWA makes the parts, the unit cost of direct material will increase by 10%. If FEWA buys the parts 40% of the fixed cost will be avoided. The other 60% will continue regardless of whether the component are manufactured or purchased. Suppose the company can purchase that part at Rs. 50 each, from other company.

Required: Suppose you are the manager of this company what is your decision? Explain by computation.

3) The cost information of two different levels of output is given below:

Output in units	**1,000**	**2,000**
Direct material and labour	Rs. 50,000	Rs. 1,00,000
Indirect expenses	Rs.30,000	Rs. 50,000
Other manufacturing expenses	Rs. 50,000	Rs. 90,000
Utilities expenses	Rs. 20,000	Rs. 20,000
Total costs	Rs. 1,50,000	Rs. 2,60,000

Required: Identify the cost behavior from given information and prepare the flexible budget for 1,500 and 2,500 units.

4) A) What do you mean by activity-based costing? Explain with examples.

B) Pokhara Auto Engineering (PAE) houses believe that there is a market for a new product that can be easily used by other business houses. PEA's market research department has surveyed the features and prices of that product currently on the market. Based on the research, Auto Company believes that Rs. 80 would be the right price. At this price, marketing department believes that about 80,000 new product can be sold over the products life cycle. It will cost about 12, 00,000 to design and develop the new product. The company has a target profit of 20% of sales.

Required: Determine the total and unit target cost to manufacture, sell distribute and service of each new product.

5) Ronald Trading provides the following information from its cost records for the first quarter of the current year:

	Quarter 1
Actual Production Units	1200
Actual sales units	1000

Normal / budgeted production units 1100.
Direct material Rs. 6 per unit for each quarter.
Other variable is cost Rs.5 per unit for each quarter.
Total fixed cost Rs. 6,600 for each quarter.
Selling and administrative variable cost per unit is Rs. 2 for each quarter.
Selling and administrative fixed expenses is Rs. 2,000 for each quarter.
Selling price per unit is Rs. 25

Required:

a) On the basis of above information prepare income statement under variable costing and absorption costing method. (8)

b) Explain the reasons for difference in operating income shown by absorption costing and variable costing. (2)

6) Management accounting provides information to the managers for planning, controlling and making decisions within the organization.' Explain the statement with examples.

7) What are the three types of responsibility centers? Explain with suitable example.

8) What comparisons should be made while deciding whether to accept or not a special order at a price different from the regular sales price? Illustrate with example.

Section: C Comprehensive Question

Read the following given information below and answer the questions that follows. (20)

Mr. Thapa, the budget director for the Kathmandu Trading Limited, is in the beginning in its process of preparing a master budget for the first quarter of 2070. The sale and account department has supplied Thapa with the following sales projection, a part of balance sheet and necessary information:

Schedule I: Balance Sheet as on Chaitra 31, 2069			
LIABILITIES & EQUITIES		**ASSETS**	
Accounts payable	120,000	Machine	50,000
8% Debenture	50,000	Merchandise	120,000
Common stock	80,000	inventory	130,000
Retained earning	70,000	Account receivable	20,000
		Cash at bank	
Total	320,000	Total	320,000

Schedule II: Forecasted sales for four months period of 2070	
Baisakh	200,000
Jestha	300,000
Ashad	300,000
Shrawan	200,000

Schedule III: Actual sales for two months period of 2069	
Falgun	120,000
Chaitra	200,000

Additional information

The gross profit margin in sales will be 40% of merchandise sales. Ending inventory of merchandise in each of the month will be equal to subsequent month's costs of goods sold. The almost sales are made on credit. Of credit sales 50% will be collected in the month, 25% will be collected in the following month and remaining will be collected in the next following month of sales.

Administrative, selling and distribution expenses will be 20% of the sales revenue of the month. Sales are all credit sales; merchandise purchases will be paid in the following months of purchase. All other expenses will be paid in the month when they will be due. The company has intended to purchase an additional unit of Machine at a cost of Rs 150,000 in the month of Baishak. The minimum cash balance required for the months under review will be Rs 20,000. The company has an agreement with Nabil Bank Ltd. for a temporary loan to meet cash deficiency of any months at an interest rate of 10% p.a. payable for the amount of loan repaid. The borrowing will be in a multiple of Rs 5,000 and payment in a multiple of Rs 1,000.

Required:

a) Cash budget for three months ending Ashar, 2070. (10)
b) Budgeted income statement for three months in total ending Ashar 2070.(4)
c) Budgeted balance sheet as on 31st Ashar, 2070. (3)
d) Explain why there is a need for a bank and what operating sources provide the cash for the repayment of the bank loan. (3)

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