

**ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD
(Department of Commerce)**

MANAGERIAL ACCOUNTING (8508)

CHECKLIST

SEMESTER: AUTUMN, 2012

This packet comprises the following material:

1. Text Book (One)
2. Course Outlines
3. Assignment No. 1, & 2)
4. Assignment Forms (Two sets)

In this packet, if you find anything missing out of the above mentioned material, please contact at the address given below:

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WARNING

1. **PLAGIARISM OR HIRING OF GHOST WRITER(S) FOR SOLVING THE ASSIGNMENT(S) WILL DEBAR THE STUDENT FROM AWARD OF DEGREE/CERTIFICATE, IF FOUND AT ANY STAGE.**
2. **SUBMITTING ASSIGNMENT(S) BORROWED OR STOLEN FROM OTHER(S) AS ONE'S OWN WILL BE PENALIZED AS DEFINED IN "AIOU PLAGIARISM POLICY".**

Course: **Managerial Accounting (8508)**
Level: **M.Com**

Semester: **Autumn, 2012**
Marks: **100**

ASSIGNMENT No. 1

- Q. 1 a) Briefly describe the following terms:
- i) Marginal cost
 - ii) Stock out cost
 - iii) Sunk cost
- b) Enumerate and explain the different types of costing system indicating clearly the industries where these are used. **(5+5)**

- Q. 2 French Creek Ceramics, Inc., operated three producing departments-Molding, Painting, and Firing. During August, the Painting Department transferred 12,400 units to the Firing Department, lost 500 units, and had 800 units in process at the end of August. There were 2,400 units in process on August 1 in the Painting Department. The remaining units started in the Painting department during August were received from the Molding Department. The costs incurred in the Painting Department during August were: **(10)**

MaterialRs. 5,886
LabourRs. 7,830
F O H.....Rs. 1,134

The work in process inventory on August, 1 was Rs. 6,656. The costs transferred to the Painting Department from the Molding Department amounted to Rs. 23,797.80. The Painting Department work in process inventory was three-fourths complete on August 1 and one-fourth complete on August 31.

Required:

The August cost of Production report for the Painting Department, using the first-in, first-out method of accounting for beginning inventories. (Carry unit cost computations to four decimal places.)

- Q. 3 a) Illustrate by drawing a diagram the relationship between joint and by products. **(5+10)**

- b) In certain continuous process industries, such as chemicals, the problem of accounting for the cost of by-products often occurs. You are required to prepare income statements separately under the following two methods:
- i) Deduct by-product revenues from the cost of production of the main product.
 - ii) Treat by-product revenues as an additional source of income in the income in the income statement.
- The following data is available:
- | | |
|-----------------------------|-----------------------|
| Sale of main product | 10,000 @ Rs. 10 each. |
| Total production cost | 12,000 @ Rs. 6 each. |
| Selling and Admin. Expenses | Rs. 20,000 |
| Sales of by-products | Rs. 4,800 |
- iii) Also indicate which method would you prefer and why?

- Q. 4 a) Explain the main functions of a cash budget and discuss briefly its importance in a system of budgetary control. (5+10)
- b) Jawad Enterprises has bank balance of Rs. 100,000 as on January 01, 2002. The sales forecast for the next six months are as follows:

Month	Rupees
January.....	850,000
February	750,000
March.....	800,000
April.....	800,000
May	900,000
June.....	950,000

Trend of recoveries against sales are 55% in the month of sales, 30% in next month, 10% in the second month and 5% in the third month.

Cost of sales are 80% of sales, payable immediately to avail 5% cash discount of cost. Other costs are 10% of sales. Personal drawings are Rs. 25,000 per month. Any shortfall will be financed by bank @ 12% markup p.a. worked out on the closing balance of the month. Mark up is payable next month.

Required:

- i) Cash budget for the six month ending June 30, 2002.
- ii) Budgeted income statement for the six month ending June 30, 2002.

- Q. 5 a) Explain three different types of standard that may be used in a standard costing system. (5+10)

- b) The Parrot Steel's factory overhead rate is Rs. 5 per hour. Budgeted overhead for 5,000 hours per month is Rs. 30,000 and at 7,000 hours is Rs. 37,000. Actual overhead for the month is Rs. 29,000 and actual volume is 7,000 hours.

Required:

- i) Variable overhead in overhead rate
- ii) Budgeted fixed overhead
- iii) Applied factory overhead
- iv) Over or under absorbed factory overhead
- v) Spending variance
- vi) Idle capacity variance

Q. 6 Hamlin, In., applies factory overhead on the following bases: **(10)**

In department A, 35% of A's materials cost; in department B, Rs. 4.00 per direct labour hour in B.

The following accounts and their balances at the end of the month have been taken from the books and records:

Work in Process---Materials	Rs. 46,000
Work in Process---Direct Labour	29,000
Work in Process---Applied Factory overhead	27,550
Indirect Labour	17,400
Factory office	3,200
Building charges (including depreciation, insurance, etc.)	4,000
Powerhouse expenses (coal, labour, etc.)	2,800

Additional information:

PRODUCING DEPARTMENTS

	A	B	
Direct materials (Rs.)	33,000	13,000	Powerhouse
Direct labour (Rs.)	11,780	17,670	
Direct labour			
Hours (Rs.)	3,500	4,000	
Power used	60%	40%	
Floor space occupied	750 sq. ft.	750 sq. ft.	500 sq. ft.

Indirect labour and factory office are apportioned in direct ratio to the cost of direct labour.

Required:

- i) A distribution sheet showing the distribution of factory overhead costs to producing departments and the powerhouse.
- ii) The total and departmental over-or under-applied factory overhead after the powerhouse expenses have been allocated to the producing departments.

Q. 7 Standard costs and other data for two component parts used by Griffon electronics are presented below: **(10)**

	Part A4	Part B5
	Rs.	Rs.
Direct Materials	0.40	8.00
Direct labour	1.00	4.70
Factory overhead	<u>4.00</u>	<u>2.00</u>
Unit standard		
Cost	<u>5.40</u>	<u>14.70</u>
Unit needed per year	6,000	8,000
Machine hours per unit	4	2
Unit cost if purchased	Rs. 5	Rs. 15

In past years, Griffon Electronics has manufactured all of its required components; however, in the current year only 30,000 hours of otherwise idle machine time can be devoted to component production. Accordingly, some of the parts must be purchased from outside suppliers. In producing parts, factory overhead is applied at Rs. 1 per standard machine hour. The fixed capacity cost, which will not be affected by any make-or-buy decision, represents 60% of the applied factory overhead.

Required:

- i) The relevant unit production costs to be considered in the make-or-buy decision to schedule machine time.
- ii) The units of A4 and B5 that Griffon should produce if the allocation of machine time is based on potential cost savings per machine hour.

Q. 8 a) Explain the difference between traditional costing system and activity based costing. Illustrate your answer with suitable example. **(5+10)**

- b) Last month the Henke Company had sales of Rs. 220,000, a C/M ratio of 40% and M/S ratio of 30%. During the current month, a decrease in sales price and a decrease in fixed costs have resulted in a C/M ratio of 36% and an M/S ratio of 24%.

Required:

- i) The amount of sales decreased.
- ii) New break-even point.
- iii) Profit during the current month.
- iv) Decrease in fixed costs.

ASSIGNMENT No. 2

Marks: 100

This assignment is a research-oriented activity. You are required to select any trading/manufacturing non-trading organization of your interest which supports you in preparing a report of about 1000 words on the topic allotted to you, to be submitted to your teacher for evaluation.

Select one of the following topics according to the last digit of your roll number. For example, if your roll number is P-3427180 then you will select issue # 0 (the last digit): -

TOPICS:

0. Identify the value added and non-value added activities in your selected organization and apply the concept of activity based management.
1. Evaluate the procedures or materials procurement and use of your chosen business organization.
2. How an organization does works out the labour costing?
3. How the efficiency of a manager as well as the business can be improved by using the CVP analysis techniques?
4. Report the Budgeting procedure, which exists in the organization.
5. Report the managerial usefulness of variance analysis techniques in the organization.
6. Prepare a comprehensive report on a managerial accounting information system.
7. How the deferential cost analysis is performed in the organization?
8. Describes the complete cost accumulation procedures in manufacturing organizations.
9. Select a manufacturing organization where a product is completed through different departments and describes that how the various Factory overheads have been assigned to different departments.

The report should follow the following format:

1. Title page
2. Acknowledgements
3. An abstract (one page summary of the paper)
4. Table of contents
5. Introduction to the issue (brief history & significance of issue assigned)
6. Practical study of the organization (with respect to the issue)
7. Data collection methods
8. SWOT analysis (strengths, weaknesses, opportunities & threats) relevant to the issue assigned
9. Conclusion (one page brief covering important aspects of your report)
10. Recommendations (specific recommendations relevant to issue assigned)
11. References (as per APA format)
12. Annexes (if any)

GUIDELINES FOR ASSIGNMENT # 2:

- 1.5 line spacing
- Use headers and subheads throughout all sections
- Organization of ideas
- Writing skills (spelling, grammar, punctuation)
- Professionalism (readability and general appearance)
- Do more than repeat the text
- Express a point of view and defend it

WORKSHOPS

The workshop presentations provide students opportunity to express their communication skills, knowledge & understanding of concepts learned during practical study assigned in assignment # 2.

You should use transparencies and any other material for effective presentation. The transparencies are not the presentation, but only a tool; the presentation is the combination of the transparencies and your speech. Workshop presentation transparencies should only be in typed format.

The transparencies should follow the following format:

- 1) Title page
- 2) An abstract (one page summary of the paper)
- 3) Introduction to the issue (brief history & significance of issue assigned)
- 4) Practical study of the organization (with respect to the issue)
- 5) Data collection methods
- 6) SWOT analysis (strengths, weaknesses, opportunities & threats)relevant to the issue assigned
- 7) Conclusion (one page brief covering important aspects of your report)
- 8) Recommendations (specific recommendations relevant to issue assigned)

GUIDELINES FOR WORKSHOP PRESENTATION:

- Make eye contact and react to the audience. Don't read from the transparencies or from report, and don't look too much at the transparencies (occasional glances are acceptable to help in recalling the topic to cover).
- A 15-minute presentation can be practiced several times in advance, so do that until you are confident enough. Some people also use a mirror when rehearsing as a substitute for an audience.

WEIGHTAGE OF THEORY & PRACTICAL ASPECTS IN ASSIGNMENT # 2 & WORKSHOP PRESENTATIONS

Assignment # 2 & workshop presentations are evaluated on the basis of theory & its applicability. The weightage of each aspect would be:

Theory:	60%
Applicability (practical study of the organization):	40%

MANAGERIAL ACCOUNTING (8508) COURSE OUTLINES

UNIT-1: COST AND MANAGEMENT ACCOUNTING SYSTEMS

- 1.1 The Concept of Cost Management
- 1.2 The Basics of Cost Accounting Information System
- 1.3 The Manufacturing Cost Accounting Cycle
- 1.4 Cost of goods manufactured statement
- 1.5 Job Order Cost Accumulation Procedures
- 1.6 Process Costing
- 1.7 The Cost of Production Report
- 1.8 Difficulties Encountered in Process Costing

UNIT-2: COSTING BY-PRODUCTS AND JOINT PRODUCTS

- 2.1 Nature of By-Products and Joint Products
- 2.2 Costing By-Products and Joint Products
- 2.3 Methods of Costing By-Products
 - 2.3.1 Recognition of Gross Revenue Method
 - 2.3.2 Recognition of Net Revenue Method
 - 2.3.3 Replacement of Cost Method
 - 2.3.4 Market Value Method
- 2.4 Methods of Allocating Joint Production Cost to Joint Products
 - 2.4.1 Market Value Method
 - 2.4.2 Average Unit Cost Method
 - 2.4.3 Weighted Average Method
 - 2.4.4 Quantitative Unit Method
- 2.5 Use of Joint Cost Analysis in Managerial Decisions

UNIT-3: MATERIAL AND LABOR COSTING

- 3.1 Material Procurement and Use
- 3.2 Material Costing Methods
- 3.3 Economic Order Quantity
- 3.4 Material Controls
- 3.5 Basics of Labor Cost Control
- 3.6 Labor Performance Reports
- 3.7 Recording Labor Costs
- 3.8 Incentive wage plans

UNIT-4: PLANNING AND CONTROL OF FACTORY OVERHEAD

- 4.1 Factory Overhead (Pre-determined rate, applied & actual)
- 4.2 FOH Variance Analysis
- 4.3 The Concept of Departmentalization
- 4.4 Departmental Overhead Rates and Variances

4.5 Overhead Departmentalization in Non-Manufacturing Business

UNIT-5: COST BEHAVIOR – ANALYSIS AND USE

- 5.1 Cost Behavior Patterns
- 5.2 Variable Costs – Its Implications
- 5.3 Fixed Costs and Relevant Range
- 5.4 The Contribution Format
- 5.5 Cost Volume Profit Relationships
- 5.6 Cost Structure
- 5.7 Applications of CVP Concept
- 5.8 Break Even Analysis
- 5.9 The Margin of Safety

UNIT-6: BUDGETING

- 6.1 The Basic Framework of Budgeting
- 6.2 Difference between Planning and Control
- 6.3 Definition, Advantages of Budgets
- 6.4 Principles of Budgeting
- 6.5 The Budget Committee
- 6.6 The Master Budget – A Network of Inter-relationship
- 6.7 Sales, Production and Cash Budgets
- 6.8 Zero-based Budgeting
- 6.9 Projected Financial Statements
- 6.10 The concept of Flexible Budget – Different Dimensions

UNIT-7: CONTROL THROUGH STANDARD COSTS

- 7.1 Standard Cost Defined
- 7.2 Comparison of Budgets and Standards
- 7.3 Setting Standards – Ideal Versus Practical Standards
- 7.4 Variances, calculation and analysis
- 7.5 Responsibility and Control of Variances

UNIT-8: COSTS IN DECISION MAKING

- 8.1 The Absorption Vs Direct costing
- 8.2 Fixed overhead and Absorption cost of product
- 8.3 Reconciliation of direct Costing and absorption Costing
- 8.4 The Contribution Approach
- 8.5 Cost Concepts for Decision Making
- 8.6 Identifying Relevant Costs
- 8.7 Make Versus Buy Decision
- 8.8 The Matter of Opportunity Costs

UNIT-9: ACTIVITY BASED COSTING (ABC)

- 9.1 Limitations of traditional costing systems

9.2	Activity-Based Costing
9.3	Activity Identification and Classification
9.4	Levels of Cost and Drivers
9.4.1	Unit Level Costs
9.4.2	Batch Level Costs
9.4.3	Product Level Costs
9.4.4	Plant Level Costs
9.5	ABC and Product Cost Distortion
9.6	Strategic Advantage of ABC
9.7	Activity-Based Management

Recommended Books

- ❖ Cost Account Planning and Control, Matz Usry, published by National Book Foundation Islamabad.)
- ❖ Managerial Accounting, Ray H. Garrison, Irvine, USA.
- ❖ Management and cost accounting, By Alnoor Bhimani, Charles T. Horngren, Srikant Datar, George Foster
- ❖ Cost Management Accounting and Control, by Hansen & Mowen