College Name: ____

Student Name: ______________________ Seat No: ______________________________

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KARACHI UNIVERSITY BUSINESS SCHOOL
UNIVERSITY OF KARACHI
FINAL EXAMINATION JUNE 2017; AFFILIATED COLLEGE
MANAGERIAL ACCOUNTING; BA (M)–602
MBA – IV

Date: July 8, 2017 **Max Time: 2 Hrs**
Max Marks: 40

INSTRUCTIONS:

1. **Attempt any 4 questions. Do not write anything on the question paper, EXCEPT the initials mentioned above.**
2. **Mobile phone(s) or any other communicating device will not be allowed in the examination room. Students will have to remove the batteries of these devices before entering the examination hall.**

Q1 Movenpic operates a bed and breakfast hotel in a resort area in the Smoky Mountains. Depreciation on the hotel is $60,000 per year. Movenpic employs a maintenance person at an annual salary of $32,000 and a cleaning person at an annual salary of $24,000. Real estate taxes are $10,000 per year. The rooms rent at an average price of $60 per person per night including breakfast. Other costs are laundry and cleaning service at a cost of $8.00 per person per night and the cost of food which is $4.00 per person per night.

Required:

(a) Determine the number of rentals and the sales revenue Movenpic needs to break even using the contribution margin technique.

(b) If the current level of rentals is 3,000, by what percentage can rentals decrease before Movenpic has to worry about having a net loss?

(c) Movenpic is considering upgrading the breakfast service to attract more business and increase prices. This will cost an additional $3.00 for food costs per person per night. Movenpic feels she can increase the room rate to $65 per person per night. Determine the number of rentals and the sales revenue Movenpic needs to break even if the changes are made.

Q2 Movie House Company has 4,000 machine hours available to produce either Product 22 or Product 44. The cost accounting department developed the following unit information for each product:

	Product 22	Product 44
Sales price	$20	$40
Direct materials	5	8
Direct labor	3	2
Variable manufacturing overhead	4	5
Fixed manufacturing overhead	3	5
Machine time required	15 minutes	60 minutes

Required: Management wants to know which product to produce in order to maximize the company's income. Taking into consideration the constraints under which the company operates, prepare a report to show which product should be produced and sold.

Q3 Mathew Steel Company uses flexible budgets to control its selling expenses. Monthly sales are expected to be from $200,000 to $240,000. Variable costs and their percentage relationships to sales are:

Sales commissions	6%
Advertising	4%
Traveling	5%
Delivery	1%

Fixed selling expenses consist of sales salaries $40,000 and depreciation on delivery equipment $10,000. The actual selling expenses incurred in February, 2008, by Mathew Steel Company are as follows:

Sales commissions	$13,700
Advertising	8,000
Traveling	11,300
Delivery	1,600

Fixed selling expenses consist of sales salaries $41,000 and depreciation on delivery equipment $10,000.

Required: Prepare a flexible budget performance report, assuming that February sales were $220,000.

Q4 Hudson Valley sells barbeque grills in an increasingly competitive environment. For a number of years, management has followed a successful policy of marking up goods by 20% of cost, the company's desired gross margin.

One of the firm's products, grill no. 56, has direct-material charges of $80, direct-labor cost of $50, and manufacturing overhead of $70. This grill is designed to compete against others in the marketplace that wholesale for an average of $220. In the last year or so, management has observed a decline in unit sales volume despite a very favorable write-up in both *Grillmaster* magazine and *Consumer Watchdog*.

Required:

(a) Explain a probable cause of the decline in unit sales volume.
(b) What would be the likely selling price if the firm uses target costing?
(c) What must happen to the current manufacturing cost if Hudson Valley were to achieve its 20% gross margin, now computed on the basis of sales? By how much?

Q5 Wood Carving Corporation manufactures three products. Because of a recent lack of skilled wood carvers, the corporation has had a shortage of available labor hours. The following per unit data relates to the three products of the corporation:

	Letter Openers	Elvis Statues	Candle Holders
Sales price	$30	$80	$42
Variable costs	$20	$40	$20
Labor hours required	1	6	2

Assume that Wood Carving only has 1,800 labor hours available next month. Also assume that Wood Carving can only sell 800 units of each product in a given month. What is the maximum amount of contribution margin that Wood Carving can generate next month given this labor hour shortage?

Q6 Define **Any Five** of the following:

A) Sunk Costs
B) Inventoriable Costs
C) Opportunity Costs
D) Marketing Costs
E) Differential Cost
F) Prevention Costs
G) Appraisal Costs

END OF SUBJECTIVE PAPER