College Name: ____

Student Name: ________________________ Seat No: ________________________

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KARACHI UNIVERSITY BUSINESS SCHOOL
UNIVERSITY OF KARACHI
FINAL EXAMINATION JUNE 2017; AFFILIATED COLLEGE
COST & MANAGERIAL ACCOUNTING; BA(BS)-522 (PART B)
BBA – VI

Date: July 14, 2017 **Max Time: 2 Hrs**
Max Marks: 40

INSTRUCTIONS:

1. **Attempt any 4 questions. Do not write anything on the question paper.**
2. **Mobile phones 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 SALAMAT Corporation has a machining capacity of 200,000 hours per year. Utilization of capacity is normally 75%; it has been as low as 40% and as high as 90%. An analysis of the accounting records revealed the following selected costs:

	At a 40% Utilization Rate	At a 90% Utilization Rate
Cost A:		
Total	Rs 440,000	Rs 440,000
Per hour	Rs 5.50	?
Cost B:		
Total	?	Rs 1,944,000
Per hour	Rs 10.80	Rs 10.80
Cost C:		
Total	Rs 680,000	Rs 1,330,000
Per hour	Rs 8.50	Rs 7.39

SALAMAT uses the high-low method to analyze cost behavior.

Required:

a) Classify each of the costs as being either variable, fixed, or semivariable.
b) Calculate amounts for the two unknowns in the preceding table.
c) Calculate the total amount that SALAMAT would expect at a 75% utilization rate for Cost A, Cost B, and Cost C.
d) Develop an equation that SALAMAT can use to predict total cost for any level of hours within its range of operation.

Q2 Sony Corporation produces a single product and has the following cost structure:

Number of units produced each year	4,000
Variable costs per unit:	
Direct materials	$15
Direct labor	$13
Variable manufacturing overhead	$7
Variable selling and administrative expenses	$5
Fixed costs per year:	
Fixed manufacturing overhead	$328,000
Fixed selling and administrative expenses	$324,000

Required:

a. Compute the unit product cost under absorption costing. Show your work!
b. Compute the unit product cost under variable costing. Show your work!

Q3 The controller for Waseem Machining has established the following overhead cost pools and cost drivers:

Overhead Cost Pool	Budgeted Overhead Cost	Cost Driver
Machine setups	Rs 240,000	Number of setups
Material handling	90,000	Units of raw material
Quality control inspection	48,000	Number of inspections
Other overhead costs	160,000	Machine hours
Total	Rs 538,000	

Overhead Cost Pool	Budgeted Level for Cost Driver	Overhead Rate
Machine setups	200 setups	Rs 1,200 per setup
Material handling	60,000 units	Rs 1.50 per unit
Quality control	1,200 inspections	Rs 40 per inspection
Other overhead	20,000 machine hours	Rs 8 per machine hour

Order no. 715 has the following production requirements:

Machine setups: 7
Raw material: 11,200 units
Inspections: 16
Machine hours: 850

Required:

a) Compute the total overhead that should be assigned to order no. 715 by using activity-based costing.
b) Suppose that Waseem were to use a single, predetermined overhead rate based on machine hours. Compute the rate per hour and the total overhead assigned to order no. 715.
c) Discuss the merits of an activity-based costing system in comparison with a traditional costing system.

Q4 Tahseen Company has the following historical collection pattern for its credit sales:
70% collected in month of sale
15% collected in the first month after sale
10% collected in the second month after sale
4% collected in the third month after sale
1% uncollectible

Budgeted credit sales for the last six months of the year follow.

July	Rs 30,000
August	35,000
September	40,000
October	45,000
November	50,000
December	42,500

Required:

a) Calculate the estimated total cash collections during October.
b) Calculate the estimated total cash collections during the year's fourth quarter.

Q5 Patel Enterprises is studying the addition of a new product that would have an expected selling price of Rs 160 and expected variable cost of Rs 100. Anticipated demand is 8,000 units.
A new salesperson must be hired because the company's current sales force is working at capacity. Two compensation plans are under consideration:

Plan 1: An annual salary of Rs 32,000 plus 10% commission based on gross sales Rupees
Plan 2: An annual salary of Rs 140,000 and no commission

Required:

a) What is meant by the term "operating leverage"?
b) Calculate the contribution margin and net income of the two plans at 8,000 units.
c) Compute the operating leverage factor of the two plans at 8,000 units. Which of the two plans is more highly leveraged? Why?

END OF SUBJECTIVE PAPER