

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

**MANAGERIAL ACCOUNTING (8508)**

**CHECKLIST**

**SEMESTER AUTUMN, 2013**

This packet comprises the following material:

1. Text Book (One)
2. Course Outline
3. Assignment No. 1,2
4. Assignment Forms ( 2 sets )
5. Schedule for assignment submission and tutorial meetings.

If you find anything missing in this packet, please contact at the address given below:

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

**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)

Semester: Autumn, 2013

Level: M.Com

Total Marks: 100

Pass Marks: 50

*Note: You are required to solve all questions if you are unable to understand any question of assignment, do seek help from your concerned tutor. But keep in mind that tutors are not supposed to solve the assignment questions for you.*

**ASSIGNMENT No. 1**

(Units: 1-9)

- Q. 1 a) Briefly describe the following terms: (5 + 10)
- i. Differential cost
  - ii. Inventoriable cost
  - iii. Stock out cost
  - iv. Period Cost
- b) How many different types of costing system are? Indicate the industries where there are used.
- Q. 2 The manager of a company requested the work in process inventory figures on (a) the average cost basis and (b) the first-in, first-out basis. The data are: (10)
- Units in beginning inventory, 8,000; all materials, 50% labour and overhead.  
Cost of beginning inventory: material, Rs. 3,984; labour, Rs. 2,148; overhead, Rs. 19,968  
Units completed and transferred, 42,000  
Units in process at the end, 6,000; all materials, 60% labour and overhead  
**Required:** The costs assigned to the work in process inventory.
- Q. 3 a) Describe and briefly discuss the methods of accounting for the by-product in the determination of the main products. Illustrate your answer with suitable examples. (5 + 10)

- b) The Newport Chemical Company manufactures three products, **R**, **S**, and **T**. During November, the following joint costs were incurred: materials, Rs. 180,000; Direct Labour, Rs. 100,000; factory overhead, Rs. 70,000. Quantities jointly produced were: **R**, 20,000; **S**, 50,000; **T**, 30,000. Additional costs after split-off were:

	<b>Direct Labour</b>	<b>Factory Overhead</b>
<b>R</b>	Rs. 25,000	Rs. 15,000
<b>S</b>	35,000	25,000
<b>T</b>	18,000	12,000

Unit Sales prices are: **R**, Rs. 7; **S**, Rs.5; **T**, Rs.8

**Required:**

- i. Gross profit for each product, assuming that all units produced were sold and that joint cost is allocated using the market value method.
  - ii. A decision as to whether Product R should be sold at the split-off point for Rs.4.50 per unit or processed further and sold for Rs. 7 per unit.
- Q. 4 a) What do you understand by labour turnover? How it is measured? Discuss the causes of labour turnover and its effect on cost of production. **(5 + 5)**
- b) In what fundamental ways does activity-based costing (ABC) differ from traditional costing methods? What are unit-level, batch-level, product-level, customer-level, and organization-sustaining activities?
- Q. 5 a) What do you understand by the term absorption costing? How does it differ from Direct Costing? **(5 + 10)**
- b) Dixon Company manufactures and sells recreational equipment. One of the company's products, a small camp stove, sells for Rs. 50 per unit. Variable expenses are Rs. 32 per stove, and fixed expenses associated with the stove total Rs. 108,000 per month.

**Required:**

- i. Compute the break-even point in number of stoves and in total sales dollars.
- ii. If the variable expenses per stove increase as a percentage of the selling price, will it result in a higher or a lower break-even point? Why? (Assume that the fixed expenses remain unchanged)
- iii. At present, the company is selling 8,000 stoves per month. The sales manager is convinced that a 10 percent reduction in the selling price would result in a 25 percent increase in monthly sales of stoves. Prepare two contribution income statement, one under present operating conditions, and one as operations would appear after the proposed changes. Show both total and per unit data on your statements.
- iv. Refer to the data in (iii) above. How many stoves would have to be sold at the new selling price to yield a minimum net income of Rs. 35,000 per month?

- Q. 6 Durban Metal Products, Ltd., makes specialty metal parts used in applications ranging from the cutting edges of bulldozer blades to replacement parts for Land Rovers. The company uses an activity-based costing system for internal decision-making purposes. The company has four activity cost pools as listed below: (10)

Activity Cost Pool	Activity Measure	Activity Rate
Order size .....	Number of direct labor-hours	Rs.16.85 / direct labor-hour
Customer orders.....	Number of customer orders	Rs.320.00 / customer order
Product testing .....	Number of testing hours	Rs.89.00 / testing hour
Selling .....	Number of sales calls	Rs.1,090.00 / sales call

The managing director of the company would like information concerning the cost of a recently completed order for heavy-duty trailer axles. The order required 200 direct labor-hours, 4 hours of product testing, and 2 sales calls.

**Required:**

Prepare a report summarizing the overhead costs assigned to the order for heavy-duty trailer axles. What is the total overhead cost assigned to the order?

- Q. 7 The marketing department of Jessi Corporation has submitted the following sales forecast for the upcoming fiscal year (all sales are on account): (10)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
<b>Budgeted unit sales</b> .....	11,000	12,000	14,000	13,000

The selling price of the company's product is Rs.18.00 per unit. Management expects to collect 65% of sales in the quarter in which the sales are made, 30% in the following quarter, and 5% of sales are expected to be uncollectible. The beginning balance of accounts receivable, all of which is expected to be collected in the first quarter, is Rs.70,200.

The company expects to start the first quarter with 1,650 units in finished goods inventory. Management desires an ending finished goods inventory in each quarter equal to 15% of the next quarter's budgeted sales. The desired ending finished goods inventory for the fourth quarter is 1,850 units.

**Required:**

1. Prepare the company's sales budget and schedule of expected cash collections.
2. Prepare the company's production budget for the upcoming fiscal year.

- Q. 8 Dawson Toys, Ltd., produces a toy called the Maze. The company has recently established a standard cost system to help control costs and has established the following standards for the Maze toy: (10)

Direct materials: 6 microns per toy at Rs.0.50 per micron  
 Direct labor: 1.3 hours per toy at Rs.8 per hour

During July, the company produced 3,000 Maze toys. Production data for the month on the toy follow:

*Direct materials:* 25,000 microns were purchased at a cost of Rs.0.48 per micron. 5,000 of these microns were still in inventory at the end of the month.

*Direct labor:* 4,000 direct labor-hours were worked at a cost of Rs.36,000.

**Required:**

1. Compute the following variances for July:
  - a. Direct materials price and quantity variances.
  - b. Direct labor rate and efficiency variances.
2. Prepare a brief explanation of the possible causes of each variance.

Q. 9 Wexpro, Inc., produces several products from processing 1 ton of clypton, a rare mineral. Material and processing costs total Rs.60,000 per ton, one-fourth of which is allocated to product X15. Seven thousand units of product X15 are produced from each ton of clypton. The units can either be sold at the split-off point for Rs.9 each, or processed further at a total cost of Rs.9,500 and then sold for Rs.12 each. **(05)**

**Required:** Should product X15 be processed further or sold at the split-off point?

**GUIDELINES FOR ASSIGNMENT # 1**

The student should look upon the assignments as a test of knowledge, management skills, and communication skills. When you write an assignment answer, you are indicating your knowledge to the teacher:

- Your level of understanding of the subject;
- How clearly you think;
- How well you can reflect on your knowledge & experience;
- How well you can use your knowledge in solving problems, explaining situations, and describing organizations and management;
- How professional you are, and how much care and attention you give to what you do.

To answer a question effectively, address the question directly, bring important related issues into the discussion, refer to sources, and indicate how principles from the course materials apply. The student must also be able to identify important problems and implications arising from the answer.

For citing references, writing bibliographies, and formatting the assignment, APA format should be followed.

**ASSIGNMENT No. 2**

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 for materials procurement and use of your chosen business organization.
2. How does an organization 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. Managerial usefulness of variance analysis
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. Explain the concept of departmentalization 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 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%

#### **Note:**

Assignments and Presentation carry 300 Marks:

Assignment 01		100 Marks
Assignment 02	(Submission)	100 Marks
Assignment 02	(Presentation)	100 Marks

# **MANAGERIAL ACCOUNTING**

## **(Course Outline)**

### **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***

1. Cost Account Planning and Control, Matz Usry, published by National Book Foundation Islamabad.)
2. Managerial Accounting by Ronald W. Hilton (Latest Edition)
3. Managerial Accounting, Ray H. Garrison, Irvine, USA. (Latest Edition)
4. Management and cost accounting, By Alnoor Bhimani, Charles T. Horngren, Srikant Datar, George Foster
5. Cost Management Accounting and Control, by Hansen & Mowen

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