

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

**MANAGERIAL ACCOUNTING (9516)**

**CHECKLIST**

**SEMESTER: SPRING 2014**

This packet comprises the following material:

1. Text Book (one)
2. Course Outline
3. Assignment No. 1, 2
4. Assignment Forms ( 2 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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**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 ASSIGNMENTS BORROWED OR STOLEN FROM OTHER(S) AS ONE'S OWN WILL BE PENALIZED AS DEFINED IN "AIOU PLAGIARISM POLICY".**

**ASSIGNMENT No. 1**

(Units: 1–4)

**Course: Managerial Accounting (9516)**

**Semester: Spring 2014**

**Level: MBA (Rural Management 3.5 Years)**

**Total Marks: 100**

**Pass Marks: 50**

- Q. 1 “It is impossible to distinguish the point at which financial accounting ends and management accounting begins.” Discuss this Statement. **(10)**
- Q. 2 (a) What is the difference between actual costing and normal costing? **(05)**  
(b) The Bakery produces tea cakes. It uses a process costing system. In March, its beginning inventory was 450 units, which were 100 percent complete for direct materials costs and 10 percent complete for conversion costs. The cost of beginning inventory was \$655. Units started and completed during the month totaled 14,200. Ending inventory was 410 units, which were 100 percent complete for direct materials costs and 70 percent complete for conversion costs. Costs per equivalent unit for March were \$1.40 for direct materials costs and \$0.80 for conversion costs.  
**Required:** From this information, compute the cost of goods transferred to the Finished Goods Inventory account, the cost remaining in the Work in Process Inventory account, and the total costs to be accounted for. Use the FIFO costing method. **(10)**
- Q. 3 (a) Define the following terms: joint products, joint costs, and split-off point. **(05)**  
(b) In certain continuous process industries, such as chemicals, the problem of accounting for the cost of by-products often occurs. The following data is available:
- |                           |                     |
|---------------------------|---------------------|
| Sale of main product      | 10,000 @ Rs.10 each |
| Total production cost.    | 12,000 @ Rs.6 each  |
| Selling & Admin. Expenses | Rs. 20,000          |
| Sales of by-products      | Rs. 4,800           |
- Required:** 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 statement.
  - iii. Also indicate which method would you prefer and why? **(10)**

Q. 4 Model X100 sells for \$120 per unit whereas Model X200 offers advanced features and sells for \$500 per unit. Management expects to sell 50,000 units of Model X100 and 5,000 units of Model X200 next year. The direct material cost per unit is \$50 for Model X100 and \$220 for Model X200. The company's total manufacturing overhead for the year is expected to be \$1,995,000. A unit of Model X100 requires 2 direct labour-hours and a unit of Model X200 requires 5 direct labour-hours. The direct labour wage rate is \$20 per hour. **(15)**

**Required:**

- i. The company currently applies manufacturing overhead to products using direct labour-hours as the allocation base. Using this traditional approach, compute the product margins for X100 and X200.
- ii. Management is considering an activity-based costing system and would like to know what impact this would have on product costs. Preliminary analysis suggests that under activity-based costing, a total of \$1,000,000 in manufacturing overhead cost would be assigned to Model X100 and a total of \$600,000 would be assigned to Model X200. In addition, a total of \$150,000 in nonmanufacturing overhead would be applied to Model X100 and a total of \$350,000 would be applied to Model X200. Using the activity-based costing approach, compute the product margins for X100 and X200.
- iii. Explain why the product margins computed in requirement (1) differ from those computed in requirement (2).

Q. 5 (a) What is meant by the term sales mix? What assumption is usually made concerning sales mix in CVP analysis? **(05)**

(b) Hamburgers and More, Inc., sells hamburgers, drinks, and fries. The sales mix is 1:3:2 (i.e., for every one hamburger sold, three drinks and two fries are sold). Using the contribution margin approach, find the breakeven point in units for each product. The company's fixed costs are \$2,040. Other information is as follows: **(10)**

	<b>Selling Price per Unit</b>	<b>Variable Costs per Unit</b>
Hamburgers	\$0.99	\$0.27
Drinks	0.99	0.09
Fries	0.99	0.15

Q. 6 Lavage Rapide is a Canadian company that owns and operates a large automatic carwash facility near Montreal. The following table provides data concerning the company's costs: **(10)**

	<b>Fixed Cost Per Month</b>	<b>Cost Per Car Washed</b>
Cleaning supplies		\$0.80
Electricity	\$1,200	\$0.15
Maintenance		\$0.20
Wages and salaries	\$5,000	\$0.30
Depreciation	\$6,000	
Rent	\$8,000	
Administrative expenses	\$4,000	\$0.10

For example, electricity costs are \$1,200 per month plus \$0.15 per car washed. The company expects to wash 9,000 cars in August and to collect an average of \$4.90 per car washed.

**Required:** Prepare the company’s planning budget for August.

Q. 7 Cedar Key Company produces handmade clamming buckets and sells them to distributors along the Gulf Coast of Florida. The company incurred \$9,400 of actual overhead costs (\$8,000 variable; \$1,400 fixed) in May. Budgeted standard overhead costs for May were \$4 of variable overhead costs per direct labour hour and \$1,500 of fixed overhead costs. Normal capacity was set at 2,000 direct labour hours per month. In May, the company produced 10,100 clamming buckets by working 1,900 direct labour hours. The time standard is 0.2 direct labour hour per clamming bucket.

**Required:** Compute (1) the variable overhead spending and efficiency variances and (2) the fixed overhead budget and volume variances for May. **(10)**

Q. 8 Delta Company produces a single product. The cost of producing and selling a single unit of this product at the company’s normal activity level of 60,000 units per year is: **(10)**

Direct materials .....	\$5.10
Direct labour .....	\$3.80
Variable manufacturing overhead .....	\$1.00
Fixed manufacturing overhead.....	\$4.20
Variable selling and administrative expense .....	\$1.50
Fixed selling and administrative expense.....	\$2.40

The normal selling price is \$21 per unit. The company’s capacity is 75,000 units per year. An order has been received from a mail-order house for 15,000 units at a special price of \$14.00 per unit. This order would not affect regular sales.

**Required:**

- i. If the order is accepted, by how much will annual profits be increased or decreased? (The order will not change the company’s total fixed costs.)
- ii. Assume the company has 1,000 units of this product left over from last year that are inferior to the current model. The units must be sold through regular channels at reduced prices. What unit cost is relevant for establishing a minimum selling price for these units? Explain.

**GUIDELINES FOR ASSIGNMENT # 1**

You 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. You 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**

**Total Marks: 100**

**Pass Marks: 50**

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 work 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 differential cost analysis is performed in the organization?
- 8 Describe the complete cost accumulation procedures in manufacturing organizations.
- 9 Explain the concept of departmentalization and describe 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%

<b>Note: Assignments and presentation carry 300 Marks:</b>	
Assignment 01 ( <i>Submission</i> )	100 Marks
Assignment 02 ( <i>Submission</i> )	100 Marks
Assignment 02 ( <i>Presentation</i> )	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
  - 2.31 Recognition of Gross Revenue Method
  - 2.32 Recognition of Net Revenue Method
  - 2.33 Replacement of Cost Method
  - 2.34 Market Value Method
- 2.4 Methods of Allocating Joint Production Cost to Joint Products
  - 2.41 Market Value Method
  - 2.42 Average Unit Cost Method
  - 2.43 Weighted Average Method
  - 2.44 Quantitative Unit Method
- 2.5 Use of Joint Cost Analysis in Managerial Decisions

### **UNIT-3: MATERIAL AND LABOUR 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 Labour Cost Control
- 3.6 Labour Performance Reports
- 3.7 Recording Labour 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 Behaviour 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
  - 9.41. Unit Level Costs
  - 9.42. Batch Level Costs
  - 9.43. Product Level Costs
  - 9.44. 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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