



**Institute of Certified Management Accountants of Sri Lanka  
Operational Level  
May 2017 Examination**

**Examination Date :** 20<sup>th</sup> May 2017                      **Number of Pages :** 06  
**Examination Time:** 9.30 a.m. – 12.30 p:m.              **Number of Questions:** 07

**Instructions to Candidates**

1. Time allowed is **three (3) hours**.
2. Total: **100 Marks**.
3. Answer **all** questions in Part I and **four (4)** questions from Part II selecting **two (2)** question from each of the Sections **A** and **B**.
4. The answers should be in **English Language**.

<u>Subject</u>	<u>Subject Code</u>
<b>Operational Management Accounting</b>	<b>(OMA / OL 1 - 201)</b>

**PART I**

**Question No. 01 (20 Marks)**

**For questions 1 to 10, select the most appropriate answer from the given answers under (a), (b), (c) & (d) for each question and write only the letter [i.e. (a) or (b) or (c) or (d)]relating to the most appropriate answer against the question number, in the answer booklet.**

- (1) The role of management accounting does not normally include the function of
  - (a) product costing
  - (b) planning and control
  - (c) cash management
  - (d) decision making
  
- (2) In a job-order cost system, indirect materials costs would be recorded as a debit to:
  - (a) Finished Goods.
  - (b) Manufacturing Overhead.
  - (c) Raw Materials.
  - (d) Work in Process.
  
- (3) ABC Company uses the weighted-average method in its process costing system. The following information was available about one of the company’s processing departments:  
 There were 108,000 equivalent units of production with respect to conversion costs during the current month.  
 There were 15,000 units in the department's beginning work in process inventory, which were two-thirds complete with respect to conversion costs.  
 During the current month, 105,000 units were started and 100,000 were completed and transferred out of the department.  
 The ending work in process inventory in the department:
  - (a) was 40% complete with respect to conversion costs.
  - (b) was 65% complete with respect to conversion costs.
  - (c) consisted of 5,000 units.
  - (d) consisted of 10,000 units.

- (4) When the sales value at split-off point method is used, joint costs are allocated to joint products
- in proportion to the estimated sales value of production.
  - by deducting the further processing costs from the sales revenues.
  - by allocating joint costs so that the overall gross profit percentage is identical for each individual product.
  - by simply allocating the joint cost in proportion to volume.
- (5) The main difference/s between traditional costing and activity based costing is on how manufacturing overhead is treated where,
- traditional costing uses only production volume based drivers while activity based costing uses only non-production volume based drivers.
  - traditional costing treats only unit level costs as variable, while ABC systems treat unit level, batch level and product level costs as variable.
  - traditional cost allocations are usually based on a plant wide overhead rate, while ABC systems use departmental overhead rates.
  - a and b
- (6) 'The techniques used to measure the difference between actual costs incurred within each of the processes of manufacturing/supply of goods/services, and the equivalent costs if there were no failures within each of the processes' best describes
- Kaizen
  - Total quality management (TQM)
  - Life cycle costing
  - Cost of quality (COQ)
- (7) How should a company determine its optimal product mix when a limiting factor exists?
- by calculating the contribution per limiting factor for each product and then to rank them in order of profitability
  - by calculating net profit before tax
  - by calculating net profit after tax
  - by calculating earnings per share
- (8) A flexible budget is a:
- budget which is designed to change in relation to the level of activity attained.
  - budget which remains unchanged irrespective of the level of activity attained.
  - summary of various functional budgets.
  - budget to ascertain profit.
- (9) Responsibility accounting aims to:
- Ensure that a manager is punished if things go wrong.
  - Reduce the costs that a department incurs.
  - Ensure that costs become the responsibility of a specific manager.
  - Allocate costs to all areas of a business.
- (10) The objective of ISO-9000 family of Quality Management is:
- customer satisfaction
  - employee satisfaction
  - skill enhancement
  - environmental issues

**(10 × 2 Marks = Total 20 Marks)**

End of Part I

## PART II

### Section A

Answer any two (2) questions

#### Question No. 02 (20 Marks)

A company operates several production processes involving the mixing of ingredients to produce bulk animal feedstuffs. One such product is mixed in two separate process operations. The information below is of the costs incurred in, and output from, Process 2 during the period just completed.

<b>Costs incurred:</b>	Rs.
Transfers from Process	1,187,704
Raw materials costs	47,972
Conversion costs	63,176
Opening work in process	3,009

#### **Production: Units**

Opening work in process (100% complete, apart from Process 2 Conversion costs which were 50% complete)	1,200
Transfers from Process	1,112,000
Completed output	105,400
Closing work in process (100% complete, apart from Process 2 Conversion costs which were 75% complete)	1,600

Normal wastage of materials (including product transferred from Process 1), which occurs in the early stages of Process 2 (after all materials have been added), is expected to be 5% of input. Process 2 conversion costs are all apportioned to units of good output. Wastage materials have no saleable value.

#### **You are required to:**

- Prepare the Process 2 account for the period, using FIFO principles. **(15 Marks)**
  - Explain how, and why, your calculations would have been different if wastage occurred at the end of the process. **(05 Marks)**
- (Total 20 Marks)**

#### Question No. 03 (20 Marks)

BL manufactures and sells a single product at a unit selling price of Rs. 25. In constant-price-level terms its cost structure is as follows:

#### **Variable costs:**

Raw materials Rs. 10 per unit produced  
Distribution cost Rs. 1 per unit sold

#### **Semi-variable costs:**

Labour Rs. 5000 per annum, plus Rs. 2 per unit produced

#### **Fixed costs:**

Overheads Rs. 5000 per annum

For several years BL has operated a system of variable costing. It has been decided to review the system and to compare it with a full costing system.

As part of the review, you have been asked to prepare estimates of BL's profits assuming constant-price-level terms over a three-year period in three different hypothetical situations and to compare the results under two types of systems.

- (a) In each of the following three sets of hypothetical circumstances, calculate BL's profit in each of years t1, t2 and t3, and also in total over the three-year period t1 to t3, using first a variable costing system and then a full-cost absorption costing system with fixed cost recovery based on a normal production level of 1000 units per annum:

- (i) Stable unit levels of production, sales and inventory. **(05 Marks)**

	t1	t2	t3
Opening stock	100	100	100
Production	1,000	1,000	1,000
Sales (Qty)	1,000	1,000	1,000
Closing stock	100	100	100

- (ii) Stable unit level of sales, but fluctuating unit levels of production and inventory. **(05 Marks)**

	t1	t2	t3
Opening stock	100	600	400
Production	1,500	800	700
Sales (Qty)	1,000	1,000	1,000
Closing stock	600	400	100

- (iii) Stable unit level of production, but fluctuating unit levels of sales and inventory. **(05 Marks)**

	t1	t2	t3
Opening stock	100	600	400
Production	1,000	1,000	1,000
Sales (Qty)	500	1,200	1,300
Closing stock	600	400	100

(Note that all the data in (i)–(iii) are volumes, not values.)

- (b) Write a short comparative evaluation of variable and absorption costing systems for management accounting purposes, paying particular attention to profit measurement. **(05 Marks)**

**(Total 20 Marks)**

#### **Question No. 04 (20 Marks)**

Large service organizations, such as banks and hospitals, used to be noted for their lack of standard costing systems, and their relatively unsophisticated budgeting and control systems compared with large manufacturing organizations. But this is changing and many large service organizations are now revising their use of management accounting techniques.

#### **You are required to:**

- (a) Explain which features of large-scale service organizations encourage the application of activity-based approaches to the analysis of cost information. **(06 Marks)**
- (b) Explain which features of service organizations may create problems for the application of activity-based costing. **(04 Marks)**

- (c) Explain the uses for activity-based cost information in service industries. **(04 Marks)**
- (d) Many large service organizations were at one time state-owned, but have been privatized. Examples in some countries include electricity supply and telecommunications. They are often regulated. Similar systems of regulation of prices by an independent authority exist in many countries, and are designed to act as a surrogate for market competition in industries where it is difficult to ensure a genuinely competitive market.

Explain which aspects of cost information and systems in service organizations would particularly interest a regulator, and why these features would be of interest. **(06 Marks)**

**(Total 20 Marks)**  
**End of Section A**

## **Section B**

**Answer any two (2) questions**

### **Question No. 05 (20 Marks)**

You are the management accountant of a group of companies and your managing director has asked you to explore the possibilities of introducing a zero-based budgeting system experimentally in one of the operating companies in place of its existing orthodox system. You are required to prepare notes for a paper for submission to the board that sets out.

**You are required to:**

- (a) How zero-based budgeting would work within the company chosen; **(06 Marks)**
- (b) What advantages it might offer over the existing system; **(05 Marks)**
- (c) What problems might be faced in introducing a zero-based budgeting scheme? **(05 Marks)**
- (d) The features you would look for in selecting the operating company for the introduction in order to obtain the most beneficial results from the experiment. **(04 Marks)**

**(Total 20 Marks)**

### **Question No. 06 (20 Marks)**

ABC is a food producer that makes low cost processed food that it sells to supermarkets. ABC produces only one type of processed food product and production techniques have remained largely unchanged for a number of years. Over recent months, sales have been falling steadily. Consumer tastes are changing to favour natural ingredients and supermarkets have reflected this in the products that they offer for sale. ABC is keen to address the decline in sales and recently held a meeting to discuss the performance of the organisation. The Management Accountant suggested to the Managing Director that the performance of ABC could be improved by implementing Total Quality Management (TQM) principles and adopting Kaizen costing concepts. Currently the control systems of ABC focus on material price and usage. The Managing Director is sceptical of the Management Accountant's suggestions and is unclear as to whether they are suitable for the company

**You are required to:**

- (a) Explain two concepts of Kaizen costing. **(10 Marks)**
- (b) Explain three conditions that must exist for TQM to be successfully implemented at ABC. **(10 Marks)**

**(Total 20 Marks)**

**Question No. 07 (20 Marks)**

- (a) Explain why management accounting practices tend not to differ across countries. **(10 Marks)**
- (b) Describe enterprise resource planning systems and their impact on management accountants.

**(10 Marks)**

**(Total 20 Marks)**

End of Section B

End of Part II

End of Question Paper

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