



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

Examination Date : 4th November 2017 **Number of Pages :** 05
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. Candidates are allowed to use non-programmable calculators.
5. The answers should be in **English Language**.

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

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) planning and control
 - (b) decision making
 - (c) product costing
 - (d) cash management
- (2) Which methods of costing are most appropriate for setting long-standing prices?
 - (a) Full cost and marginal cost
 - (b) Full cost and activity-based cost
 - (c) Marginal costing, full cost, and activity-based cost
 - (d) Activity-based cost and marginal cost
- (3) Which of the following operation situation mostly requests the use of a process cost accounting system?
 - (a) Construction company
 - (b) Print shop
 - (c) Ship builder
 - (d) Sugar refiner
- (4) Which method of allocates the joint cost to the joint products in proportion to the net realizable value of each joint product?
 - (a) Net-realizable-value method
 - (b) Physical-units method
 - (c) Relative-sales-value method
 - (d) Physical-value method

- (5) When using Activity Based Costing, a cost accumulation point would be known as a:
- (a) cost pool
 - (b) cost unit
 - (c) profit centre
 - (d) cost driver
- (6) Limiting factor analysis refers to:
- (a) A situation where a business tries to maximise contribution subject to resource constraints.
 - (b) A situation where a business tries to minimise its costs.
 - (c) A situation where a business produces products that use the smallest amount of scarce resources.
 - (d) A situation where a business tries to substitute scarce resources to increase production.
- (7) Which of the following is closely indicating the purpose of budgeting?
- (a) Planning and control of an organization's income and expenditure
 - (b) Preparation of a five-year business plan
 - (a) Company valuation
 - (b) Assess the non-financial performance of an organization
- (8) Which of the following statements regarding multinational transfer pricing is *incorrect*?
- (a) In international (or interstate) transactions, transfer prices can affect tax liabilities, royalties, and other payments because of different laws in different countries.
 - (b) Because tax rates vary among countries, companies have incentives to set transfer prices that will increase revenues (and profits) in low-tax countries and increase costs (thereby reducing profits) in high-tax countries.
 - (c) Foreign companies that sell goods to their U.S. subsidiaries at inflated transfer prices artificially increase the profit of the U.S. subsidiaries.
 - (d) International taxing authorities look closely at transfer prices when examining the returns of companies engaged in related-party transactions that cross national boundaries.
- (9) A decision for repetitive or routine problems for which the responses have been already been decided and been known to the person who will make the decision is called:
- (a) programmed
 - (b) Non-programmed.
 - (c) strategic
 - (d) professional
- (10) A computer-driven system for analysing and projecting materials needs and then scheduling their arrival at the workstation at the right time is called:
- (a) material requirement planning
 - (b) just in time (JIT) inventory control
 - (c) Computer Aided Designing (CAD)
 - (d) Computer Aided Manufacturing (CAM)

(10 × 2 Marks = Total 20 Marks)

End of Part I

PART II

Section A

Answer any two (2) questions

Question No. 02 (20 Marks)

The entry of ABC Hospitals into the state dominated healthcare sector and saw the private health care system take root in country. The launch of the hospital and the overwhelming response it received from the people demonstrated a long felt need for superior healthcare in a pleasant environment.

ABC specialises in hip, knee and shoulder replacement operations, known as surgical procedures. As well as providing these surgical procedures the company offers pre operation and post operation in-patient care, in a fully equipped hospital, for those patients who will be undergoing the surgical procedures. Surgeons are paid a fixed fee for each surgical procedure they perform and an additional amount for any follow-up consultations. Post procedure follow-up consultations are only undertaken if there are any complications in relation to the surgical procedure. There is no additional fee charged to patients for any follow up consultations. All other staff are paid annual salaries. The company's existing costing system uses a single overhead rate, based on revenue, to charge the costs of support activities to the procedures. Concern has been raised about the inaccuracy of procedure costs and the company's accountant has initiated a project to implement an activity-based costing (ABC) system.

The project team has collected the following data on each of the procedures:

Procedure information		Hip	Knee	Shoulder
Fee charged to patients per procedure	(Rs.)	8,000	10,000	6,000
Number of procedures per annum		600	800	400
Average time per procedure	Hours	2.0	1.2	1.5
Number of procedures per theatre session		2	1	4
In-patient days per procedure		3	2	1
Surgeon's fee per procedure	(Rs.)	1,200	1,800	1,500
% of procedures with complications	%	8	5	10
Surgeon's fee per follow up consultation	(Rs.)	300	300	300
Cost of medical supplies per procedure	(Rs.)	400	200	300

The project team has obtained the following information about the support activities.

Activity	Cost driver	Overheads (Rs.000)
Theatre preparation for each session	Number of theatre preparations	864
Operating theatre usage	Procedure time	1,449
Nursing and ancillary services	In-patient days	5,428
Administration	Sales revenue	1,216
Other overheads	Number of procedures	923

You are required to:

- Calculate the profit per procedure for each of the three procedures, using the current basis for charging the costs of support activities to procedures. **(05 Marks)**
- Calculate the profit per procedure for each of the three procedures using activity-based costing. **(10 Marks)**
- Discuss the ways in which the information obtained by the project team may be of benefit to the management of the company. **(05 Marks)**

(Total 20 Marks)

Question No. 03 (20 Marks)

Fischer Ltd manufactures a single standard product, and operates a standard costing system.

As assistant management accountant, you are responsible for preparing the monthly operating statements. Data from the budget, the standard product cost and actual data for the month ended 31st October are given below.

Budgeted sales and production for the month: 10,000 units

Standard cost for each unit of product:

Direct material: X: 10 kg at Rs.1/- per kg

Y: 5 kg at Rs.5/- per kg

Direct wages: 5 hours at Rs.8/- per hour

Budgeted fixed overheads are Rs.300,000/-

Budgeted sales price has been calculated to give a contribution of 50% of the selling price.

Actual data for the month ended 31st October:

Production: 9,500 units sold at a price of Rs.160/-

Direct materials consumed: X: 96,000 kg at Rs. 1.20 per kg

Y: 48,000 kg at Rs. 4.70 per kg

Direct wages incurred 46,000 hours at Rs. 8.20 per hour

Fixed production overhead incurred Rs.290,000/-

Using the data given, you are required to prepare the operating statement for the month ended 31st October showing:

- (a) the budgeted profit; **(08 Marks)**
 - (b) Cost variances for direct materials, direct wages and overhead, and sales revenue variance. Each variance should be analysed into causes depending on the data availability; and **(08 Marks)**
 - (c) Actual profit. **(04 Marks)**
- (Total 20 Marks)**

Question No. 04 (20 Marks)

The wage rates for skilled workers are to increase by 50% over the budget figures, as a result of the national wage agreement. There is a shortage of such skilled workers and it takes over a year to train new recruits adequately. The managing director has asked you for advice as to which order of priority on the product range would give best use of the skilled labour resources available. The cost of unskilled labour, of which there is no shortage, will go up by 20% over budget. The original budget figures for the next period before allowing for the increase in labour cost detailed above were:

<u>Product</u>	<u>V</u>	<u>W</u>	<u>X</u>	<u>Y</u>	<u>Z</u>
Maximum production in units	3,000	4,000	6,000	7,000	9,000
Selling price per unit (Rs.)	16	15	18	15	30
Variable cost per unit (Rs.)					
Material	3	5	4	7	6
Skilled labour : Rs.4/- per hour	4	4	6	2	8
Unskilled labour : Rs.2/- per hour	2	2	1	1	4

Variable overheads are recovered at the rate of Rs.1/- per labour hour. The skilled labour available amounts to 30,000 hours in the period and there are fixed costs of Rs.22,800/-.

You are required to:

- (a) Calculate the product mix which would result in the maximum profit; **(14 Marks)**
- (b) Comment on the results of the revised budget. **(06 Marks)**
- (Total 20 Marks)**
End of Section A

Section B

Answer any two (2) questions

Question No. 05 (20 Marks)

- (a) What is an ERP system? Bring out the major challenges involved in its implementation. **(12 Marks)**
- (b) What are the advantages and disadvantages of using Manufacturing Resource Planning (MRP) system? **(08 Marks)**
- (Total 20 Marks)**

Question No. 06 (20 Marks)

- (a) Discuss the development of cost accounting and managerial control practices and assess their relevance to the changing nature of industrial competition in the 1980s. **(10 Marks)**
- (b) What is the role of a Management Accountant in cost control and cost reduction? **(10 Marks)**
- (Total 20 Marks)**

Question No. 07 (20 Marks)

- (a) Describe the major aims of backflush costing. **(10 Marks)**
- (b) What is target costing? It is said that target costing fosters team work within the organisation. Explain how target costing creates an environment in which team work fosters. **(10 Marks)**
- (Total 20 Marks)**

End of Section B

End of Part II

End of Question Paper
