

MANAGEMENT INFORMATION

Time allowed -2 hours

Full Marks - 100

[N.B. – The figures in the margin indicate full marks. Questions must be answered in English. Examiner will take account of the quality of language and the manner in which the answers are presented. Different parts, if any, of the same question must be answered in one place in order of sequence.]

Marks

1. (a) Define the following with suitable examples.

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- i. Cost unit
- ii. Product cost
- iii. Period Cost

(b) A company has two production departments and two service departments with production overheads as shown in the following table:

	Production Department		Service Department	
	W	X	Y	Z
Production overheads (Tk. '000)	500	600	600	800

Service department Y divides its time between the other departments in the ratio of 3:2:1 (for W, X and Z respectively)

Department Z spends 40% of its time for servicing department W and 60% of its time for servicing department X. If all service department overheads are apportioned to production departments, then calculate the total fixed overhead cost of department W.

6

2. (a) A management consultancy absorbs overheads on chargeable consulting hours.

Budgeted overheads were Tk. 615,000 and actual consulting hours were 32,150. Overheads were under-absorbed by Tk. 35,000.

If actual overheads were Tk. 694,075, what was the budgeted overhead absorption rate per hour?

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(b) A company manufactures Luxury and Standard items. The following information relates to period 1:

	Luxury	Standard
Variable Materials per unit	Tk. 16	Tk. 12
Variable labor per unit	Tk. 21	Tk. 9
Variable production overhead per unit	Tk. 10	Tk. 8
Budgeted Production	3,500 Units	3,300 Units
Actual Production	3,500 Units	3,300 Units
Closing Inventory	290 Units	570 Units

Variable labor is paid Tk. 6 per hour.

Total Fixed cost Tk. 120,400 are recovered on the basis of variable labor hours.

Calculate the value of inventory under both marginal costing and absorption costing.

10

3. (a) What is cash operating cycle?

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(b) A retailing company earns a gross profit margin of 37.5% on its monthly sales of Tk. 20,000. In order to generate additional cash, the following changes are proposed:

	Present	Proposed
Inventory holding period	1.5 months	1.0 month
Trade payable payment period	1.0 month	1.3 months

How much additional cash will be generated at the end of the month if the above proposal is materialized?

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(c) A retailing company's working capital consists of inventory, trade receivables, cash and trade payables. All working capital balances were the same at the beginning and the end of the year. The sales revenue for the year was Tk. 900,000.

The financial ratios for the year include the following:

Current ratio	3.4:1
Rate of inventory turnover	15 times p.a.
Receivables collection period	73.0 days
Payables payment period	36.5 days
Gross profit margin	20.0%

Calculate closing cash balance?

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4. S Limited has extracted the following details from the standard cost card of one of its products.
- Labor standard 4.5 hours @ Tk. 6.40 per hour
- During March, S Limited produced 2,300 units of the product and incurred wages costs of Tk. 64,150. The actual hours worked were 11,700.
- Calculate labor rate and efficiency variance. 8

5. (a) What is margin of safety 4
(b) W Limited sells one product for which data is given below:

	Tk. per unit
Selling price	10
Variable cost	6
Fixed cost	2

The fixed costs are based on a budgeted level of activity of 5,000 units for the period.

Requirement:

- i. How many units must be sold if W Limited wishes to earn a profit of Tk. 6,000 for one period? 4
ii. What is W Limited's margin of safety for the budget period if fixed costs prove to be 20% higher than budgeted? 4
iii. If the selling price and variable cost increase by 20% and 12% respectively, by how much must sales volume change compared with the original budgeted level in order to achieve the original budgeted profit for the period? 6
6. Tk. 50,000 is to be spent on a machine having a life of five years and a residual value of Tk. 5,000. Operating cash inflows will be the same each year, except for year 1 when the figure will be Tk. 6,000. The accounting rate of return on the initial investment has been calculated at 30% pa.
- Calculate the payback period. 8

7. (a) During periods of rising prices, what will be the effect on the financial statements if FIFO method is used instead of LIFO method for valuation of inventory? 4
(b) Errors occasionally occur during physical counting of the inventory. Identify the effects on the financial statements of an overstatement of the ending inventory in the current period. If the error is not corrected, how does it affect the financial statements for the following year? 4
(c) Yesinia Company uses the periodic inventory system to account for inventories. Information related to Yesinia Company's inventory at October 31 is given below:

October 1 Beginning inventory	400 units @ Tk. 10.00 = Tk.4,000
October 8 Purchase	800 units @ Tk. 10.40 = 8,320
October 16 Purchase	600 units @ Tk. 10.80 = 6,480
October 24 Purchase	200 units @ Tk. 11.60 = 2,320
Total units and cost	2,000 units Tk. 21,120

Requirement:

- (a) Show computations to value the ending inventory using the FIFO cost method if 550 units remain on hand at October 31. 4
(b) Show computations to value the ending inventory using the weighted-average cost method if 550 units remain on hand at October 31. 4
(c) Show computations to value the ending inventory using the LIFO cost method if 550 units remain on hand at October 31. 4