ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD

(Department of Commerce)

COST ACCOUNTING (462)

CHECKLIST

SEMESTER: SPRING, 2012

This packet comprises the following material:

1. Text book (one)
2. Assignment No. 1, & 2
3. Assignment forms (Two sets)
4. Schedule for submitting assignments and tutorial meetings

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

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Muhammad Munir
Course Coordinator
Q. 1 Define cost. Explain in details the elements of cost. (20)

Q. 2 (a) What do you understand by Economic Order Quantity? (20)
(b) From the following information, calculate the economic order quantity and total number of orders to be placed in the year.
Annual demand is 25,000 units. Cost per order is Rs. 45, carrying cost is 4.5% of unit cost and the cost per unit is Rs. 6.

Q. 3 Explain the different types of remuneration and incentive plans. What are the basic principles of incentive schemes? (20)

Q. 4 The following information relates to Talal Ltd about factory overhead costs and production levels for the year, 2010: (20)
Normal capacity 400,000 units
Expected actual capacity 350,000 units
Fixed expenses Rs. 700,000
Variable expenses Rs. 2 per unit
Required: Work out factory overhead absorption rate for both normal as well as expected actual capacity for the year, 2010.

Q. 5 Explain the product costing procedures used for flexible flow and line flow strategy. (20)
Assignment No. 2
(Units: 6–9)

Q. 1 (a) Differentiate clearly between budgets and standards. (20)
(b) The ABC garments company’s sales forecast for the next quarter, ending June 30, indicates the following:

<table>
<thead>
<tr>
<th></th>
<th>Expected Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shirts (Units)</td>
<td>21,000 Units</td>
</tr>
<tr>
<td>Trousers (Units)</td>
<td>37,500 Units</td>
</tr>
</tbody>
</table>

Inventories at the beginning and desired quantities at the end of the quarter are as follows:

<table>
<thead>
<tr>
<th></th>
<th>March 31</th>
<th>June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shirts (Units)</td>
<td>5,800 Units</td>
<td>6,200 Units</td>
</tr>
<tr>
<td>Trousers (Units)</td>
<td>10,600 Units</td>
<td>10,500 Units</td>
</tr>
</tbody>
</table>

Prepare a production budget for the second quarter.

Q. 2 Define standard cost. Write a detailed note on importance of standard costing. (20)

Q. 3 A company produces only one product. Normal capacity is 20,000 units per year and the unit sales price is Rs. 5. Relevant costs are:

<table>
<thead>
<tr>
<th></th>
<th>Unit Variable Cost</th>
<th>Total Fixed Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Materials</td>
<td>Rs. 1.00</td>
<td></td>
</tr>
<tr>
<td>Director labour</td>
<td>1.20</td>
<td></td>
</tr>
<tr>
<td>Factory Overhead</td>
<td>0.50</td>
<td>Rs. 15,000</td>
</tr>
<tr>
<td>Marketing expenses</td>
<td>0.30</td>
<td>5,000</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td></td>
<td>6,000</td>
</tr>
</tbody>
</table>

Required:
(a) Break-even point in units of product
(b) Break-even point in sales
(c) The number of units of product that must be produced and sold to achieve a profit of Rs. 10,000.
(d) The sales revenue required to achieve a profit of Rs. 10,000. (20)

Q. 4 Normal operating capacity of Albert Inc. is 150,000 machine hours per month, the level used to compute the predetermined factory overhead application rate. At this level of activity, fixed factory overhead is estimated to be Rs. 300,000
and variable factory overhead is estimated to be Rs. 150,000. During March, actual production required 140,000 machine hours and actual factory overhead totaled Rs. 435,000.

**Required:**

1. Determine the fixed portion of the factory overhead application rate.
2. Determine the variable portion of the factory overhead application rate.
3. Is factory overhead for March over or under applied and by how much?
4. How much is the spending variance and is it favorable or unfavorable?
5. How much is the idle capacity variance, and is it favorable or unfavorable?

Q. 5 Define and contrast Absorption Costing and Marginal Costing.