

Student Name _____

ID# _____

COURSE: ACCO 330/2 SECTION A; SECTION AA; SECTION B; SECTION C			
EXAMINATION: Midterm EXAM	DATE: Sunday, October 14, 2007	TIME: 9:30 – 12:30	# OF PAGES: 10 (including cover page)
INSTRUCTORS: Dr. R. Kapoor and Dr. S. Mustafa			
MATERIALS ALLOWED: 1) ENGLISH LANGUAGE / OTHER LANGUAGE DICTIONARY 2) NON-PROGRAMMABLE CALCULATOR - MAY <u>NOT</u> BE SHARED			
SPECIAL INSTRUCTIONS: READ THE INSTRUCTIONS BELOW			

INSTRUCTIONS

1. ANSWER ALL QUESTIONS IN THE ANSWER BOOKLET THAT HAS BEEN PROVIDED TO YOU.
2. BE SURE TO RETURN THE EXAM PAPER ALONG WITH THE ANSWER BOOKLET AT THE END OF THE EXAM.
3. ANY STUDENT WHO FAILS TO RETURN THE ENTIRE EXAM PAPER ALONG WITH THE ANSWER BOOKLET(S) WILL BE REPORTED FOR CHEATING.
4. DO NOT TEAR YOUR EXAM PAPER OR YOUR ANSWER BOOKLET(S).
5. BE SURE TO PUT YOUR NAME AND STUDENT I.D. NUMBER ON THE EXAM PAPER AND THE ANSWER BOOKLET.
6. START EACH QUESTION ON A NEW PAGE IN THE ANSWER BOOKLET.
7. IT IS VERY IMPORTANT TO WRITE THE NAME OF YOUR INSTRUCTOR AND SECTION LETTER/NUMBER ON YOUR ANSWER BOOKLET(S).

Good Luck!

Question 1 (12 Multiple Choice Questions) (20-25 minutes)

(16 marks)

Choose the **Best** answer of the following multiple-choice questions. Write your answers in the **ANSWER BOOKLET**.

1. The balanced scorecard accounting report can be made more effective by developing it at a detail level so that employees:

- A) Can see how it is put together.
- B) Appreciate all the effort that goes into its preparation.
- C) Respect management for including them in its formulation.
- D) Can see how their actions contribute to the success of the firm.
- E) Do not feel left out.

(1 mark)

2. Direct materials and direct labor costs total \$40,000, conversion costs total \$35,000, and factory overhead costs total \$100 per machine hour. If 200 machine hours were used for Job #202, what is the total manufacturing cost for Job #202?

- A) \$95,000
- B) \$75,000
- C) \$65,000
- D) \$60,000
- E) \$55,000

(1 mark)

3. Which of the following journal entries is correct if scrap is being incurred and sold for all common jobs in the amount of \$600?

- A)

Cash		\$600	
	Work-in-Process Inventory		\$600
- B)

Cash		\$600	
	Finished Goods Inventory		\$600
- C)

Cash		\$600	
	Factory Overhead		\$600
- D)

Cash		\$600	
	Work-in-Process Inventory		\$200
	Finished Goods Inventory		\$200
	Factory Overhead		\$200

- E) None of the above.

(1 mark)

4. The objectives of cost allocation are simply to:

- A) Motivate, provide incentive, and determine fair awards.
- B) Accurately define, divide and spread direct costs.
- C) Value, measure, and interpret cost data.
- D) Connect, communicate, and discern information.
- E) Define, refine, and re-define indirect costs.

(1 mark)

5. The Insurance Plus Company has two service departments: actuarial (S1) and premium rating (S2), and two production departments: marketing and sales. The distribution of each service department's efforts to the other departments is shown below:

FROM	TO			
	Actuarial	Premium	Marketing	Sales
S1	0%	50%	30%	20%
S2	30%	0%	40%	30%

The direct operating costs of the departments (including both variable and fixed costs) were as follows:

Actuarial	\$50,000
Premium Rating	\$40,000
Marketing	\$60,000
Sales	\$70,000

The total cost accumulated in the sales department using the step method is calculated to be:
 [Note: actuarial (S1) is allocated first]

- A) \$ 70,000.
- B) \$107,857.
- C) \$127,857.
- D) \$137,857.
- E) \$140,000.

(2 marks)

6. Value Activities can best be defined as:

- A) Activities that firms in the industry must perform to improve a product.
- B) Activities that firms in the industry must perform in the process of converting raw material to final product, and including customer service.
- C) Activities that firms in the industry must perform in the process of closing down a product line, including customer service.
- D) Activities that firms in the industry must perform to consider ways of marketing a product.
- E) Activities that firms in the industry must perform in the process of considering new products, including customer service.

(1 mark)

7. If a firm decided to reevaluate and reorganize the way it did business, in hopes of creating competitive advantage, by changing or decreasing jobs, the company would be using which of the following strategies?

- A) Redistribution.
- B) Reanalysis.
- C) Reengineering.
- D) Reevaluation.
- E) None of the above.

(1 mark)

8. Abnormal spoilage:

- A) Is considered part of good production.
- B) Arises under efficient operating conditions.
- C) Is controllable in the short run.
- D) Is an unacceptable unit that should not occur under efficient operating conditions.
- E) Is part of inventory product cost.

(1 mark)

9. L & L, CA, employs two full-time professional CAs and five other accountants. Budgeted direct salary costs include \$150,000 for each CA and \$40,000 per other accountant. For 2007 year, indirect costs were budgeted at \$200,000, but actually amounted to \$225,000. Actual salaries were \$155,000 for each CA and \$45,000 for each accountant. Direct and indirect costs are applied on a labor-hour basis. Total budgeted labor-hours were 5,000. If a client used 500 labor-hours, what are the budgeted direct-cost rate and the budgeted indirect cost rate, respectively?

- A) \$100; \$45.
- B) \$100; \$40.
- C) \$ 90; \$40.
- D) \$110; \$40.
- E) \$107; \$45.

(2 marks)

10. In a local factory, employees are rewarded for finding new and better ways of changing the way they work. This company is motivating its employees to use what management technique?

- A) Benchmarking.
- B) Activity-Based Costing.
- C) Theory of Constraints.
- D) Continuous Improvement.
- E) Total Quality Management.

(1 mark)

Use the following information to answer questions (11 &12)

The Parker Manufacturing Company has two production departments (fabrication and assembly) and three service departments (general factory administration, factory maintenance, and factory cafeteria). The following is a summary of costs and other data for each department prior to allocation of service department costs for the year ended June 30.

			General		
			Factory	Factory	Factory
	Fabrication	Assembly	Administration	Maintenance	Cafeteria
Direct labor costs	\$1,950,000	\$2,050,000	\$90,000	\$82,100	\$87,000
Direct materials costs	\$3,130,000	\$ 950,000	-0-	\$65,000	\$91,000
Overhead costs	\$1,650,000	\$1,850,000	\$70,000	\$56,100	\$62,000
Direct labor hours	562,500	437,500	31,000	27,000	42,000
Number of employees	280	200	12	8	20
Square footage occupied	88,000	72,000	1,750	2,000	4,800

The costs of the general factory administration department, factory maintenance department, and factory cafeteria are allocated on the basis of direct labor hours, square footage occupied, and number of employees, respectively.

11. Assume that Parker elects to use the direct method to distribute service department costs. The amount of factory maintenance department costs that would be allocated to the fabrication department would be (Round final calculations to the nearest dollar)

- A) \$0
- B) \$111,760
- C) \$106,091
- D) \$91,440
- E) None of the above.

(2 marks)

12. Assume that Parker elects to use the direct method to distribute service department costs. The amount of general factory administration department costs that would be allocated to the assembly department would be (Round final calculations to the nearest dollar)

- A) \$0
- B) \$63,636
- C) \$70,000
- D) \$90,000
- E) None of the above.

(2 marks)

Question 2 (25-30 minutes)

(16 marks)

The East Montreal Air Force Base trains new pilots and aircraft maintenance personnel. The base commander requires a quarterly report on the actual cost incurred to train a pilot and a maintenance person.

Fortunately, for those who have to determine these costs, the air base maintains only four cost centers: staff administration, personnel services, pilot training, and maintenance training. The direct costs incurred, to train 10 pilots and 100 aircraft maintenance personnel, by each of these cost centers for the quarter just ended were as follows:

	<u>Staff</u> <u>Administration</u>	<u>Personnel</u> <u>Services</u>	<u>Pilot</u> <u>Training</u>	<u>Maintenance</u> <u>Training</u>
<u>Salaries and wages</u>	\$800,000	\$560,000	\$ 640,000	\$400,000
<u>Materials costs</u>	150,000	100,000	1,300,000	200,000
<u>Other costs</u>	500,000	300,000	600,000	300,000

Staff administration costs are allocated to other cost centers in proportion to each cost center's salaries and wages. Personnel services costs are allocated to cost centers in proportion to the number of people employed in each cost center. For the quarter, 24% of the base employees were assigned to staff administration, 20% to personnel services, 24% to pilot training, and 32% to maintenance training.

The accountant of East Montreal Air Force Base allocates the staff administration and personnel services costs to pilot and maintenance training using the reciprocal method and applying simultaneous-equations.

Required

As the accountant of East Montreal Air Force Base, determine the cost of training a pilot and a maintenance person during the quarter just ended. **(16 marks)**

Question 3 (40-45 minutes)**(25 marks)**

Constructo Inc. is a manufacturer of furnishings for infants and children. The company uses a job cost system and employs a normal costing accounting method for cost accumulation. Constructo's work-in-process inventory at April 30, 2007 consisted of the following jobs.

<u>Job No.</u>	<u>Items</u>	<u>Units</u>	<u>Accumulated Cost</u>
CBS102	Cribs	20,000	\$ 900,000
PLP086	Playpens	25,000	420,000
DRS114	Dressers	25,000	250,000

The company's finished goods inventory at April 30, 2007, which Constructo evaluates using the FIFO (First-in, first-out) method, consisted of five items.

<u>Item</u>	<u>Quantity and Unit Cost</u>	<u>Accumulated Cost</u>
Cribs	7,500 units @ \$ 64 each	\$480,000
Strollers	13,000 units @ \$ 23 each	299,000
Carriages	11,200 units @ \$102 each	1,142,400
Dressers	21,000 units @ \$ 55 each	1,155,000
Playpens	19,400 units @ \$ 35 each	679,000

Constructo applies factory overhead on the basis of direct labor hours. The company's factory overhead budget for the year totals \$4,500,000, and the company plans to expend 600,000 direct labor hours during the year.

During the month of May the company started two new jobs: Job STR077 (10,000 strollers) and Job CRG098 (5,000 carriages).

At the end of April, the balance in Constructo's Materials Inventory account, which includes both direct materials and indirect materials, was \$668,000. Additions to and requisitions from the materials inventory during the month of May included the following.

	<u>Raw Materials</u>
Additions	\$638,000
Requisitions:	
Job CBS102	155,000
Job PLP086	253,800
Job DRS114	211,000
Job STR077	143,750
Job CRG098	252,000
Indirect materials	15,000

In addition, the company used \$3,000 of office supplies during May.

Question 3 (...Continued)

During the month of May, Constructo's factory payroll consisted of the following.

<u>Account</u>	<u>Hours</u>	<u>Cost</u>
CBS102	12,000	\$122,400
PLP086	4,400	43,200
DRS114	19,500	200,500
STR077	3,500	30,000
CRG098	14,000	138,000
Indirect labor	3,000	29,400
Factory Supervision	17,600	\$221,100

In addition, the company incurred administrative and selling salaries of \$300,000 for May.

Listed below are the jobs that were completed for the month of May.

<u>Job No.</u>	<u>Items</u>	<u>Quantity Completed</u>
CBS102	Cribs	20,000
PLP086	Playpens	25,000
STR077	Strollers	10,000
CRG098	Carriages	5,000

Listed below are items that were sold and the unit selling price for the month of May.

<u>Items</u>	<u>Quantity Sold</u>	<u>Unit Selling Price</u>
Cribs	17,500	\$100 each
Playpens	21,000	\$ 60 each
Strollers	14,000	\$ 50 each
Dressers	18,000	\$ 80 each
Carriages	6,000	\$150 each

Other actual costs incurred during the month of May, included the following:

- Rent (for factory, \$30,000; for office, \$10,000)
- Deprecation (for factory equipment, \$100,000; for office equipment, \$20,000)
- Utilities (for factory, \$40,000; for office, \$13,000)

Required

a. Compute the unit cost of each item manufactured by Constructo Inc during the month of May, 2007. **(10 marks)**

b. Assume that the amount of over/under-applied overhead is significant. Prepare the appropriate journal entry to close out the manufacturing overhead account at the end of the month of May, 2007. **(10 marks)**

c. Assume that the amount of over/under-applied overhead is significant. Compute the adjusted cost of goods sold for Constructo Inc for the month ended May 31, 2007. **(5 marks)**

Question 4 (30-35 minutes)

(18 marks)

APCO manufactures various lines of bicycles; it employs a process-cost system using the FIFO method to determine unit costs. Bicycle parts are manufactured in the molding department. The parts are consolidated into a single bike unit in the molding department and transferred to the assembly department where they are partially assembled. After assembly the bicycle is sent to the packing department. Below are the annual data for the assembly department:

ASSEMBLY DEPARTMENT ANNUAL COST DATA

	Transferred in from molding <u>department</u>	Assembly <u>Material</u>	Assembly <u>Labor</u>	Assembly <u>Overhead</u>
Prior period costs	\$ 82,200	\$6,660	8,000	\$11,900
Current period costs	1,237,500	96,580	149,940	260,190

ASSEMBLY DEPARTMENT ANNUAL PRODUCTION DATA

	BICYCLES	PERCENT COMPLETE		
		Assembly Material	Assembly Labor	Assembly Overhead
Beginning WIP inventory	3,000	70%	30%	80%
Transferred in from molding department during year.....	45,000			
Ending WIP inventory	5,000	60%	40%	70%

There was no spoilage, but at the end of the assembly process \$5,000 worth of scrap was sold.

Required

- Prepare a production cost report for the assembly department, to determine the cost of goods transferred out and the cost of ending work-in-process. **(16 marks)**
- Prepare the appropriate journal entries to properly account for scrap and transfer of costs to the Packaging Department. **(2 marks)**

Question 5 (40-45 minutes)

(25 marks)

Champion, Inc., began the current period with 3,000 units in work-in-process. These units were 40% complete. Costs attached to beginning work-in-process were \$6,000 for materials, \$9,000 for labor, and \$10,000 for overhead. During the period, work was begun on an additional 8,000 units. Materials are added at the beginning of the process, labor is added when the units are 30% complete, and overhead is incurred uniformly. Units are inspected when they are 60% complete. Rejected units are returned to the 20% complete point for rework. Normal rework is 1% of the units surviving inspection. Units are inspected again when they are 75% complete. Rejected units are thrown away. Normal spoilage is considered to be 2% of the units inspected. There were 11,150 units inspected for rework and 250 units were rejected for spoilage. Spoiled units are sold at two dollars each. Ending work-in-process consists of 1,750 units, 90% complete. Current costs incurred were \$16,000 for materials, \$24,450 for labor, and \$44,112.50 for overhead.

Required

a. Using average process costing determine cost of goods completed, cost of ending work-in-process, loss from abnormal spoilage, loss from abnormal rework.

(20 marks)

b. Prepare the appropriate journal entries to properly account for spoilage, salvage, and transfer of costs to Finished Goods Inventory. **(5 marks)**