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FACULTY OF ECONOMIC AND ADMINISTRATIVE SCIENCES
DEPARTMENT OF MANAGEMENT
MAN 305 COST ACCOUNTING

Duration: 90 minutes

January 20, 2009

SECOND MIDTERM EXAM QUESTIONS

Question 1. Grass Corporation manufactures three products, Ordinary, Complex and Simple. The company produced 800 units of Ordinary, 1,200 units of Complex and 2,000 units of Simple during the current year. Unit price and unit costs for direct materials and labor are:

	Ordinary	Complex	Simple
Direct material cost per unit	\$ 11	\$ 25	\$ 7
Direct labor cost per unit	\$ 7	\$ 15	\$ 9
Selling price per unit	\$ 35	\$ 105	\$ 25

The company's indirect manufacturing costs can be allocated to three major activities. These activities and the amount of overhead cost to be allocated to each activity for the current year are given below:

Activity Cost Pools	Indirect Costs	Expected Activity		
		Ordinary	Complex	Simple
Machine setups required	\$ 17,000	700	1,000	1,700
Purchase orders issued	3,700	300	200	500
Maintenance requests issued	10,800	400	600	800
	\$ 31,500			

Using the data above and an activity-based costing approach, determine the unit manufacturing cost of each product for the current year.

Question 2. Sew Entertainment Company is planning to hold a concert at one of the local country clubs. It has three options for the place:

1. Light Club: Fixed rental fee of \$ 10,000 and \$ 8 per person for food.
2. Moon Club: Fixed rental fee of \$ 15,000 and \$ 6 per person for food.
3. Star Club: Fixed rental fee of \$ 25,000 and \$ 4 per person for food.

Sew Company has budgeted \$10,000 for administrative and marketing expenses. There will be no additional cost.

- a. Which option should be chosen assuming 1,250 people attend?
- b. Which option should be chosen assuming 2,000 people attend?

Question 3. Alternative Manufacturing Company produces two products, X and Y. The following information is presented for both products:

	X	Y
Selling price per unit	\$ 36	\$ 24
Variable cost per unit	28	12

Total fixed costs are \$ 234,000.

- a. Contribution margin for each product
- b. Break-even point in units of both X and Y if the sales mix is 3 units of X for every unit of Y

Question 4. Soft Drink Company processes direct materials up to the split off point, where two products, A and B, are obtained. At split off point 2,000 liters of A and 3,000 liters of B produced. Cost of purchasing of direct materials and processing it up to the split off point to yield these products was \$7,500.

Product A may be processed further to yield Product SA for an additional processing cost of \$4,900. But this additional process normally results in loss of % 15 of the amounts entering the process. SA is sold for \$7.00 per liter.

Product B may be processed further to yield Product SB for an additional processing cost of \$2,800. But this additional process normally results in loss of % 10 of the amounts entering the process. SB is sold for \$4.00 per liter.

There were no beginning and ending inventory balances.

- Allocate the joint costs of \$7,500 to SA and SB drinks using estimated net-realizable value at split off method.
- If you can sell Product A for \$4 per liter at split off point. Do you prefer to sell A at split off point or do the further processes and sell as SA?
- Assume that 60% of SB sold. How much will be the cost of ending inventory of SB.

Question 5. Green Golf Company sells a special product for \$ 20 each. In March, it sold 20,000 units while manufacturing 25,000 units. There was no beginning inventory on March 1. Production information for March was:

Direct manufacturing labor per unit	30 minutes/per unit
Fixed selling and administrative costs	\$ 40,000 per month
Fixed manufacturing overhead	\$ 132,000 per month
Direct materials cost per unit	\$ 2 per unit
Direct manufacturing labor per hour	\$ 24 per hour
Variable manufacturing overhead per unit	\$ 4 per unit
Variable selling expenses per unit	\$ 2 per unit

- Compute the inventoriable cost per unit under both absorption and variable costing.
- Compute the ending inventories under both absorption and variable costing.
- Compute operating income under both absorption and variable costing.