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Faculty of Business and Economics \ Accounting Department

Cost Accounting \ First Exam July 15, 2014

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Question One:

Honey Company produces two types of cars (H1 and H2) data related to the two products:

	H1	H2
Annual production in unites	50000	100000
DM cost	\$150000	\$300000
DL cost	\$50000	\$100000
DL hours	2500	5000
Machine-Hours	25000	50000
Number of Production runs	50	50
Inspection hours	1000	500

Total manufacturing overhead cost of \$600,000 are allocated using ABC system as following:

- Machining costs \$375,000 allocation base is machine hours
- Setup costs \$120,000 allocation base is number of production runs
- Inspection cost \$105,000 allocation base inspection hours

Required:

1. Compute the manufacturing cost per unit using simple costing system for each product if manufacturing overhead is allocated to direct labor cost

~~MOH rate~~ Bud MOH rate = $\frac{\text{total OH}}{\text{allocation base}}$

$\frac{600,000}{50,000 + 100,000} = 4$

DM cost
DL cost
Bud OH

Annual production unit
Cost per unit

H1

150,000
50,000
200,000
400,000
50,000
<u>8</u>

H2

300,000
100,000
400,000
800,000
100,000
<u>8</u>

⇒ 600,000

Cost per unit = $\frac{\text{total cost}}{\text{total unit}}$

Question 1: Choose the correct answer

1) Which of the following lead to the use of fund accounting by a governmental organization?

	<u>Financial control</u>	<u>Legal Restriction</u>
a-	Yes	<u>Yes</u>
b-	Yes	No
c-	No	No
<u>d-</u>	No	<u>Yes</u>

2) The measurement focus of governmental type fund is on the determination of:

	<u>Current Resources</u>	<u>Financial Position</u>
a-	Yes ✓	Yes
<u>b-</u>	Yes ✓	No
c-	No	No
d-	No	Yes

3) The primary emphasis in accounting and reporting for governmental fund is on:

- a- Sources
- b- Income ✓
- c- Capital ✓
- d- Transfer between fund

4) Which of the following funds of a government unit recognizes revenue only in the accounting period in which they become available and measurable in their fund financial statement: *Cash:*

- a- General fund *modified Cash Basis*
- b- Enterprise fund *Full Accrual Basis*
- c- None
- d- Both

5) Sig city used the following funds for financial reporting purposes:

General^x (internal service^x), airport enterprise^x, special revenue (pension trust^x), capital project^x, debt service^x

How many funds use the accrual basis of accounting?

- a- Two
- b- Three
- c- Four
- d- Five

6) During the current year, X country levied \$2,000,000 property tax, 1% expected to be uncollectable. During the year, the country collected \$1,800,000 and wrote off \$15,000, what amount would country X report in its government-wide statement?

- a- \$1,800,000 *Actual*
- b- \$1,980,000 $[2,000,000 - (2,000,000) \times 1\%] - 15,000$
- c- \$1,985,000 $[2,000,000 - 15,000]$
- d- \$2,000,000 *Actual*

7) Roy city received a gift, the principal of which is to be invested with the income used to support library, in which fund should this gift be recorded?

- a- Permanent fund
- b- Investment trust fund
- c- Private fund
- d- Special fund

Modified

8) A country's balance in the general fund included the following:

Appropriation \$745,000
 Encumbrances 37,250
 Expenditure 298,000
 Voucher Payable 55,875

Dr. Fund 745,000
 Cr. Exp. 745,000
 Dr. Crk. 37,250 Cr. App. 745,000
 Cr. Reserve 37,250 Cr. Crk.
 Dr. Exp. 298,000 Cr. Exp.
 Dr. Pay. 55,875 Cr. App. 298,000
 Cr. Crk.

What is the remaining balance available for use by the country?

- a-\$353,875
- b-\$391,125
- c-\$409,750
- d-\$447,000

Dr. Fund 745,000
 Cr. App. 745,000
 Dr. Crk. 37,250
 Cr. Reserve 37,250
 Dr. Exp. 298,000
 Cr. App.

9) V city adopts a cash-basis budget, what basis should be used in budgetary comparison?

- a-Cash
- b-Modified
- c-Accrual
- d-Modified

Budgetary Basis Modified
 Government LB

10) The estimated revenue control account of a government unit is debited when:

- a-Actual revenue is recorded
- b-Actual revenue is collected
- c-Budget is recorded
- d-Budget is closed

11) To record the \$20,000 budgeted excess of estimated revenue over appropriation, this district should:

Dr. Est. Rev 20,000 X

a-Credit estimated excess revenue control

Cr. Approp. 20,000

b-Debit estimated excess revenue control

Dr. Est.

c-Credit budgetary fund balance

d-Debit budgetary fund balance

12) General fund expect the following inflow of resources:

Dr
 Property taxes and licenses \$9,000,000

*① Dr. Cash 9,000,000
 Cr. Proceed 9,000,000*

Review
 Proceeds of debt issue 5,000,000

Interfund transfer for debt service 1,000,000

*② Dr. Cash
 Cr. Transfer in 1,000,000*

What amount should we record for estimated revenue (not other financing sources):

a-\$9,000,000

b-\$10,000,000 X

c-\$14,000,000

d-\$15,000,000 X

13) CLXFF company issued purchase order totaling \$5,000,000, which were properly charged to encumbrances. CLXFF received all goods that were ordered and paid \$4,500,000. What amount of encumbrances will be outstanding?

a-0 *zero*

b-\$300,000

c-\$500,000

d-\$800,000

*Dr. Exp 5,000,000
 Cr. Pay 5,000,000*

*Dr. Exp 4,500,000
 Cr. A/P 4,500,000*

*Dr. Reserve 4,500,000
 Cr. Exp. 4,500,000*

14) Powell atg purchased a piece of equipment to be used by a department ^{g200} financed by the general fund, how should Powell report the acquisition? DF-Exp

- a- As an expenditure
- b-Capitalize, depreciation is optional
- c-Capitalize, depreciation is required
- d-Capitalize, depreciation is permitted

15) Encumbrances wouldn't appear in which fund?

- a- Capital
- b-Special revenue
- c-General
- d-Enterprise ^{Account}

Enc. Proj.
Exp AP
Revenue Enc.

Question 2: True/False

- 1_ The key objective of financial reporting is to provide information about the entity's performance. ✓ *is F Conclusion*
- 2_ G&NP establish the level of services that they will provide, calculate their cost, and then set tax rates and other fees to generate the revenues required to pay for the services. ✓
- 3_ ^{Budget-} financial statement shows how much will be spent on a particular activity and what the activity will achieve. ✗
- 4_ If organizations fail to balance their budgets, and borrow to cover operating deficits, then the cost of benefits enjoyed by the citizens of today must be borne to those of tomorrow. ✗
- 5_ ^{*} like business, G & NP make significant investment in assets that neither produce revenue nor reduce expenditures. ✗
- 6_ G&NP need (not) to show in their financial reports that restricted resources are unavailable for purposes other than those specified. ✗
- 7_ For the purposes of internal management and control, NP may adopt a modified accrual basis of accounting, FASB requires that they prepare their general-purpose external reports on a full accrual basis. ✓
- 8_ maintenance expenditure can be easily estimated for the next year. ✓
- 9_ Funds divide the government into categories of functional departments. ✗
- 10_ ^{Permanental-fid} endowment used to report resources provided by trust in which the earnings but not the principal must be used. ✗
- 11_ long term assets can be expected to last for many years. Therefore, in the interest of interperiod equity, they will be financed with taxes of a single year. ✗
- 12_ Appropriation budget which relate costs to outputs and are thereby intended to help control costs, especially those of business-type activities. ✗
- 13_ Activity: is line of work contributing to a function or program such as highway patrol, crime investigation, vice patrol. ✓
- 14_ Object budget Promotes up bottom budgeting. ✗
- 15_ ^{Classification} estimating revenue for the next year is easier than estimating expenditures. ✗

Question 3:

For each of the following determine just the credit amount for the transaction related to the government.

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- It lost alawsuit filed by one of its renters and was ordered to pay \$1 million in damages over 5 years. It made its first cash payment of \$200,000.

Dr. lawsuit expenditure 200,000
Cr. Cash 200,000

- The Authority issues \$2.5 million in long-term bonds.

Dr. Cash 2.5m
Cr. PRSecal (from Bonds) 2.5m

- at the start of year two, the university had \$3,000 of outstanding commitments for repairs.

Dr. Encumbrances 3000
Cr. Reserve for Encumbr 3000

- It adopts a budget calling for total revenues of \$400 m and total expenditure of \$390 m.

Dr. Est Revenue 400
cr. Fnd Balance 400

Dr. Fnd Balance 390
cr. Appropriation 390

Dr. Est 400
Cr. App. 390
cr. Fnd Balance 10