

UNIVERSITI SAINS MALAYSIA
Master of Business Administration

First Semester Examination
 Academic Session 1995/96

October/November 1995

AGW512 - PRINCIPLES OF ACCOUNTING

Time : [3 hours]

INSTRUCTION:

Please make sure that this examination paper consists of **FIVE (5)** printed pages before you begin.

Answer **FOUR (4)** questions. All questions carry equal marks.

1. Presented below is the Dec. 31, 1989, balance sheet for the Beaufort Nursing Home.

BEAUFORT NURSING HOME		Balance Sheet	
December 31, 1989.			
<p>Assets</p> <p>Assets:</p> <p>Cash\$ 1,200</p> <p>Accounts Receivable..... 7,200</p> <p>Nursing Supplies on Hand.. 1,300</p> <p>Land 10,000</p> <p>Nursing Home 40,000</p> <p>Nursing Equipment 12,000</p> <p>Total Assets<u>\$71,700</u></p>	<p>Liabilities and Owner's Equity</p> <p>Liabilities:</p> <p>Notes Payable \$35,000</p> <p>Accounts Payable..... 3,500</p> <p>Total Liabilities... <u>\$38,500</u></p> <p>Owner's Equity:</p> <p>Beaufort, Capital <u>33,200</u></p> <p>Total Liabilities and Owner's Equity <u>\$71,700</u></p>		

During the month of January, 1990, the following transactions took place:

- i. Acquired nursing supplies on account, \$1,250.
- ii. Collected \$6,700 from accounts receivable.
- iii. Acquired nursing equipment on account, \$2,000.
- iv. Billed nursing home patients, \$12,500 for nursing fees.
- v. Paid \$2,500 on accounts payable.
- vi. Paid nursing salaries \$1,780.
- vii. Paid utilities expense \$1,100.
- viii. Mr Beaufort withdrew \$750 from the business.
- ix. Received a bill from the Victor Company for \$970 representing the amount of advertising expense incurred by the company for the month.
- x. Paid \$1,000 of the note payable.

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- a. Record the amounts from the Dec, 31, 1989, balance sheet in a Equation Statement.
- b. Record the transactions for the month of January, 1990.
- c. Prepare the following statements:
 - i. An income statement for the month of January.
 - ii. A statement of owner's equity for the month of January.
 - iii. A balance sheet for January 31, 1990.

[25 marks]

2. The Richard Enfield Company prepared the following trial balance and provided the additional adjustment data for the year ended December 31, 1990:

Cash	\$ 3,210	
Accounts Receivable	21,070	
Prepaid Insurance	3,600	
Store Supplies on Hand	3,370	
Land	40,000	
Store Building	250,000	
Accumulated Depreciation: Store Building		\$ 62,500
Store Equipment	180,000	
Accumulated Depreciation: Store Equipment		54,000
Accounts Payable		10,120
Note Payable		100,000
Enfield, Capital		278,460
Enfield, Withdrawals	45,000	
Service Revenues Earned		350,200
Salary Expense	175,600	
Professional Training Expense	87,270	
Storage Rental Expense	17,090	
Repairs Expense	13,730	
Utilities Expense	9,700	
Telephone Expense	5,640	
Totals	<u>\$855,280</u>	<u>\$855,280</u>

Additional Data:

- i. Insurance in the amount of \$1,200 has expired.
 - ii. \$2,240 of the store supplies have been used during the year.
 - iii. Depreciation on the store building and the store equipment amounts to \$6,250 and \$18,000 respectively.
 - iv. At year-end, salaries in the amount of \$3,440 have accrued.
 - v. Interest on the long-term note payable amounts to \$12,000 for the year.
- a. Record the unadjusted trial balance in the appropriate columns of a worksheet.
 - b. Prepare the appropriate adjustments on the worksheet and complete the worksheet.
 - c. Prepare an income statement, a statement of owner's equity, and a balance sheet.

[25 marks]

3a. Music City, Inc. is a major producer of pipe organs. Model D14 is a double-manual organ with a large potential market. Here is a summary of data from 1994 operations for Model D14:

<i>Variable costs per unit</i>	
Direct materials	\$ 2,300
Direct labor	800
Factory overhead	600
Selling expense	500
<i>Total fixed costs</i>	
Factory overhead	195,000
Advertising	55,000
Administrative	68,000
<i>Selling price per unit</i>	9,500

- i. Compute the 1994 breakeven point in units.
 - ii. Music City sold sixty-five D14 models in 1994. How much profit did the firm realize.
 - iii. Management is pondering alternative courses of action for 1995. (Treat each alternative independently).
 - (a) Calculate the number of units that must be sold to generate a \$95,400 profit. Assume that costs and selling price remain constant.
 - (b) Calculate net income if the company increases the number of units sold by 20 percent and cuts the selling price by \$500 per unit.
 - (c) Determine the number of units that must be sold to break even if advertising is increased by \$47,700.
 - (d) If variable costs are cut by 10 percent, find the number of units that must be sold to generate a profit of \$125,000.
- b. Critically examine the assumptions of cost-volume-profit analysis.

[25 marks]

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- 4a. The controller of Wright's California Surfboard Company has recently developed the following standards for the production of one of its most popular models:

Direct materials: 80 kg/surfboard at \$0.50/kg = \$40.00/surfboard
Direct labor: 2 hr/surfboard at \$8.00 hr = \$16.00/surfboard
Variable factory overhead: 2 hr/surfboard at \$2.00/hr = \$4.00/surfboard
Fixed overhead: \$4,500/month

During January, 225 surfboards were budgeted for production, but only 200 were produced. The average monthly activity (used to determine the fixed factory overhead rate) was the same as the number of units budgeted for this month - 225 surfboards. The actual results related to this production were as follows:

Direct materials: 19,000 kg purchased at \$0.52 per kg 16,250 kg used
Direct labor: 425 hours at \$8.15 per hour
Variable overhead: \$765
Fixed overhead: \$4,700

Compute the individual and flexible budget variances for each production cost. Also, determine the production volume variance and total variance for fixed factory overhead. Indicate if each variance is favourable or unfavourable.

- b. Why would it be preferable to compare the actual results for the current period to standard cost, rather than to the actual costs of the previous period?
- c. Explain the meaning of the term equivalent whole units in process costing. How is it determined?

[25 marks]

- 5a. Explain what is a profit centre. How does it differ from a cost centre?
- b. If an organisation has numerous profit centres, would you expect it to be highly centralised or decentralised? Explain.
- c. How would you evaluate the performance of a profit centre manager once you have determined the contribution margin controllable by the profit centre manager?

[25 marks]

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- 6a. The accountant assists management in the decision making process. List several types of management decisions that would require the accountant's assistance?
 - b. How do management accounting and financial accounting differ? Also explain how management accounting and cost accounting differ.
 - c. Explain the characteristics of a manufacturing operation that would typically use job order costing. Give several examples of industries that use job order costing.
- [25 marks]

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