

Mid-term Exam

October 26th, 2020

Length: 2h 10m

Student Name: _____

Student Number: _____ Class: _____

DIRECTIONS:

The questions must be answered in the space provided in the exam sheets.

You are required to keep the answer sheets stapled.

Close-book exam. Only basic or scientific calculators allowed.

Use 4 decimals in the intermediate calculations.

QUESTION 1 – MULTIPLE CHOICE

(5 marks)

- You are required to **show the supporting calculations** to numerical questions, otherwise it will **not be marked**.
- Unclear answers will not be marked.
- There is only one correct answer to each question. No penalties for wrong answers.

- 1. Sit&Enjoy** is a company that manufactures chairs. The following information concerning November is available:

	Manufacturing costs	Selling costs	Administrative costs	Financial costs	Total
Costs:					
Miscellaneous costs	20 000€	4 000€	2 000€		26 000€
Personnel costs	14 000€	5 000€	3 500€		22 500€
Depreciation	4 500€	2 000€	1 000€		7 500€
Financial costs				500€	500€
Total	38 500€	11 000€	6 500€	500€	
Revenues:					
Sales					96 000€
Financial Revenues					150€

Inventory of Direct Material:

- Opening: 1 000 units at 5€/unit
- Purchases: 2 000 units at 6.5€/unit
- Consumption: 2 500 units

Inventory of Finished Goods:

- Opening stocks: 120 units at 50€/unit
- Production: 1 000 units
- Sales: 800 units

What is the difference in the value of the Closing Inventory of Finished Goods using WAC and LIFO?

- a) 200€
- b) -280€
- c) 280€
- d) -700€
- e) None of the above

Answer: **A**

2. **Best Golf Imports** is a merchandising company that uses Activity-Based Costing to allocate the indirect costs to its divisions: **golf clubs, golf clothing & shoes, golf balls & accessories**

Regarding 2019, the following information was collected:

Year N	Golf Clubs	Golf Clothing & Shoes	Golf Balls & Accessories	Total
Sales	70 000 €	40 000 €	26 000 €	136 000 €
Cost of merchandises sold	42 000 €	22 000 €	16 900 €	80 900 €
Deliveries Received	14	35	12	61
Hours of Restocking	80	500	150	730
Hours of Customer Service	2 000	1 200	300	3 500

Activities	Activity Cost Driver	Activity Cost Driver Rate
Importing	number of deliveries received	?
Product Restocking	hours of restocking	6 €/h
Customer Service	hours of customer service	8 €/h

Knowing that the total costs of **golf clubs** were 58 620 € in 2019, what were the total cost of the **importing** activity?

- a) 610 €
- b) 3 010 €
- c) 961 €
- d) 1 823 €
- e) None of the others

Answer: A

3. **Biscuits Company** uses process costing. In September 20 500 units started in production in process A with a manufacturing cost of 615 000€. There was no opening or closing inventories.

500 units were expected to be lost in Process A due to the limitations of the production machines despite efficient operating conditions. In September, the finished production, which was all transferred to Process B, totaled 19 900 units.

What was the expense registered in the P&L Account in September regarding abnormal losses in Process A?

- a) 18 000€
- b) 15 000€
- c) 3 075€
- d) 3 000€
- e) No loss needed to be registered in the P&L

Answer: C

4. **PrettyBag** company manufactures and sells bags (only one model). The following P&L for January was prepared using Variable Costing:

DESCRIPTION	Amounts in euros
1 – Sales	47 000
2 – Cost of sales	18 600
3 – Gross margin	28 400
4 – Non-manufacturing variable costs	500
5 - Contribution margin	27 900
6 – Fixed costs:	
- Under-recovery of overheads	9 500
- Non-manufacturing costs	12 000
7 - Operating profit	6 400

The unit selling price for each bag is 25€.

What is the BEP in value?

- a) 36 219€
- b) 16 004€
- c) 20 215€
- d) 35 581€
- e) None of the above

Answer: **A**

5. Knowing that if the current sales of Company X decrease by 60%, the company will have null results, and that the BEP is 100 000 €. The current Sales are:
- a) 200 000€
 - b) 250 000€
 - c) 150 000€
 - d) 166 667€
 - e) None of the above

Answer: **B**

QUESTION 2
(3.5 marks)

The **SweetDOG Company** manufactures a type of dog food and imports dog accessories to sell in the market

The following information for the month of October was available:

Financial Accounting Items:

	Manufacturing costs	Selling costs	Administrative costs	Financial costs	Total
Purchase of direct materials					16 000€
Cost of commodities sold					13 500€
Costs:					
Miscellaneous costs	6 000€	2 000€	1 000€		9 000€
Salaries and wages ¹	13 860€	4 455€	3 465€		21 780€
Depreciation	6 500€	3 500€	3 000€		13 000€
Financial costs				1 100€	1 100€
Total	26 360€	9 955€	7 465€	1 100€	
Revenues:					
Sales of Finished Goods					72 000€
Sales of Commodities					28 000€
Financial Revenues					900€

Inventories:

	Opening stock	Closing stock
Direct materials	5 000€	2 500€
Work-in-progress goods	1 100€	900€
Finished goods	150 units at 20€/unit	50 units

Production= 2000 units

Salaries and wages must cover theoretical social charges of 60%.

Knowing that the company uses FIFO as the method of inventory valuation:

1. Calculate Cost of Goods Manufactured

DM= 18 500

MC = 48 920

COGM = 49 120

¹ Includes 23.75% of social charges paid during the month.

2. Do you expect to have a difference in profit between the P&L according to Financial Accounting and by Function? If yes, justify and present your supporting calculations.

Yes, theoretical social charges, 6 380.

QUESTION 3
(6 marks)

CakeArt is a bakery specialized in cakes for special events that produces two types of personalized cakes for special occasions: **standard sized cakes** and **large sized cakes**.

Regarding 2018, the following information about the homogeneous cost centers was collected:

	Production Departments		Service Departments	
	Baking	Personalization	Preparation	Cleaning
Manufacturing Overheads Directly Assigned	120 000 €	150 000 €	80 000 €	?
<i>Users</i>	<i>Suppliers</i>			
Standard Sized Cakes	200	100	-	-
Large Sized Cakes	300	150	-	-
Baking	-	-	100	50
Personalization	-	-	200	50
Preparation	-	-	-	25
Cleaning	-	-	200	-
Total	500 Lh	250 Lh	500 Lh	125 Lh

- CakeArt used the Sequential Method of Reallocation
- The total manufacturing overhead costs allocated to Large Sized Cakes were 240 000€

1) What were the manufacturing overhead costs directly assigned to the **Cleaning Department?**

Preparation = 160€Lh

Cleaning = 820€/Lh

Direct costs of cleaning = 50 000€

In 2019, CakeArt was sold and restructured. When the newly appointed controller was deciding on the method of allocation to implement, he prepared the following information:

Activities	Cost Driver	Manufacturing Overheads	Consumption of cost driver	
			Standard Size Cakes	Large Size Cakes
Preparation	number of cakes	60 000 €	120 000 cakes	80 000 cakes
Making the dough	number of labor hours	99 000 €	8 000 Lh	7 000 Lh
Baking	time in the oven	55 000 €	60 000 hours	50 000 hours
Painting and Decoration	total area of the cakes (in cm ²)	96 000 €	80 000 cm ²	120 000 cm ²
Cleaning and Disinfection	number of production batches	72 000 €	20 000 batches	40 000 batches
Total		382 000 €		

- Prime cost of Standard Sized Cakes = 3.25€/unit
- Prime cost of Large Sized Cakes = 4.00€/unit

2) If CakeArt chose to allocate the manufacturing overheads proportionally to the number of cakes produced, what would be the cost of producing one unit of **Standard Sized Cakes**?

SOR= 1.91€/un

Cost of Standard Cake = 5.16€/un

3) If the company decided to use Activity-Based Costing instead, what would be the unitary cost of production of **Standard Sized Cakes**?

MOH = 1.51€/un

Cost of Standard Cake = 4.76€/un

4) At that time, when discussing this issue with the management team, one of the managers said:
“We want to reduce our costs of production. So, we should choose the method of allocation that shows the lowest cost of production per unit.” Comment on this statement.

False, the method of allocation doesn't change the costs incurred by the company.

QUESTION 4
(3.5 marks)

The company Pasta is dedicated to the production and commercialization of Pasta in Cubes

For the month of January, the following elements are known:

Pasta in Cubes movements (in quantities):

Opening Inventories	Actual production	Sales
1 000	12 000	8 000

Other information:

- The company's practical capacity is: 20 000 units
- The unit selling price is € 5.
- Consider that all non-manufacturing costs are variable and totaled € 8 000 in the month under review.
- The company uses the LIFO valuation criteria.
- In the month under analysis, using the total full costing, profits were different from the use of variable costing, by € 7 000.

Knowing that the unit cost of goods manufactured using the variable costing is € 1.20, the following elements are intended:

1. The fixed costs of the period.

MFC = 21 000

2. Calculate the Operating Profit of the Company using the Full Costing Based on Practical Capacity, knowing the cost of sales using the same costing system is 18 000€.

Note: Information obtained in the resolution of this question cannot be used in the resolution of the previous question.

URO = 8 400

Profit = 5 600

3. Comment on the following sentence: "If the initial inventories of the finished product are null, the results/profits for a given period, using the full costing based on practical capacity system, will always be equal to or greater than those resulting from the use of the total full costing".

False, the difference in profit will depend on real production, sales, and practical capacity.

QUESTION 5
(2 marks)

Chocolicious is a company that manufactures and sells two different types of chocolates: Caramel Chocolate and Milk Chocolate.

The company increased its facilities and sold 560 000 units of Caramel Chocolate and 700 000 units of Milk Chocolate last year.

Prices and variable costs are different for each product:

	Caramel Chocolate	Milk Chocolate
Unit Selling Price	6.5€	5€
Unit Variable costs	3€	2€

Knowing that the total fixed costs were 3 700 000€:

Calculate the BEP in volume and in value for the entire company and for each product.

In units

$BEP_{total} = 1\,148\,276 \text{ un}$

$BEP_{Caramel} = 510\,345 \text{ un}$

$BEP_{Milk} = 637\,931 \text{ un}$

In value (€)

$BEP_{total} = 6\,506\,897.5€$

$BEP_{Caramel} = 3\,317\,242.5€$

$BEP_{Milk} = 3\,189\,655€$