

## MANAGERIAL ACCOUNTING

### Assignment 3 Sem 2 2011/2012 MBA

#### SECTION A:

##### Question 1 [15 marks]

A direct labor worker at Sejuta Corporation is paid \$18 per hour for regular time and time and a half for all work in excess of 40 hours per week. The company's fringe benefits cost \$4 for each hour of employee time (both regular and overtime). Last week this employee worked 42 hours but was idle for 4 hours due to material shortages. The company treats all fringe benefits relating to direct labor as added direct labor cost and the remainder as part of manufacturing overhead.

Required:

Determine how much of the worker's wages for the week would be classified as direct labor cost and how much would be classified as manufacturing overhead cost. Show your work.

##### Question 2 [15 marks]

ACM Bhd. manufactures and sells ceiling fans. ACM Bhd. incurred the following costs related to quality for the year:

Cost of warranty repairs .....	\$35,000
Cost of employee quality training .....	\$27,000
Cost incurred to rework fans .....	\$18,000
Spoilage cost (net) .....	\$15,000
Cost of handling customer complaints .....	\$11,000
Depreciation cost of test equipment .....	\$6,000
Cost of quality circles .....	\$5,000
Maintenance cost of test equipment .....	\$3,000
Cost of retesting reworked fans .....	\$2,000
Cost of final testing of fans .....	\$1,000

Required:

Prepare a Quality Cost Report for ACM Bhd. showing both dollars and percents. Assume that sales were \$2,000,000.

### Question 3.

Sa'adiyah Bakery manufactures varieties of cup cakes. Since the demand for the cakes is increasing, the management has engaged you in assisting the production department to determine an economical sales and production mix for the upcoming year. The company has provided the following data:

<i>Flavor</i>	<i>Demand Next Year (units)</i>	<i>Price per 1,000 Unit</i>		
		<i>Selling Price</i>	<i>Direct Materials</i>	<i>Direct Labor</i>
Coffee	250,000	\$2,800	\$630	\$600
Strawberry	200,000	\$3,400	\$1,100	\$650
Cappuccino	150,000	\$3,800	\$1,240	\$650
Chocolate	150,000	\$3,000	\$1,000	\$620

The following additional information is available:

1. The company's plant has a capacity of 20,000 direct labor-hours per year on a single-shift-basis. The company's present employees and equipment can produce all four flavors.
2. The direct labor rate of \$20 per hour is expected to remain unchanged during the coming year.
3. Fixed costs total \$250,000 per year.
4. Variable overhead costs are \$20 per direct labor-hour.
5. All of the company's nonmanufacturing costs are fixed.
6. There will be no finished goods inventory.

Ordinarily, a system has only one constraint. The capacity of any complete process is determined by the capacity of the constraint, which could be a single machine or work center. In addition to making sure that the best product mix is chosen by ranking products based on the contribution margin per unit of the constrained resource, managers should seek ways to increase the effective capacity of the constraint. Sa'adiyah Bakery is now experiencing a problem in fulfilling the market demand. The plant in Shah Alam is now producing cakes in full capacity. Based on the order received, it seems like Sa'adiyah Bakery cannot fulfill the demand because of the labor-

hour constraint but the top management insist that Sa'adiyah Bakery should accept the order and work for it.

Conceptually, the capacity of the bottleneck can be increased by increasing the rate of output at the bottleneck or increasing the time available at the bottleneck. It is important for managers to handle the bottleneck as a top priority in ensuring that the production will go smoothly and company's target can be achieved.

**Required.**

- i. Determine the total labor-hour needed to fulfill the demand.
- ii. Prepare a schedule showing the total direct labor-hour that will be required to produce the units estimated to be sold during the coming year.
- iii. Determine the contribution margin per constrained resource on each flavor.
- iv. Rank according to priority to produce based on your finding in (ii) and (iii) above.
- v. Discuss how can managers in Sa'adiyah Bakery handle the constraint with some specific examples of ways to elevate the constraint in order to produce maximum output and at the same time getting maximum profit.
- vi. Besides profit, what other factors that can influence your decision to determine the priority of producing the flavor.

**END OF ASSIGNMENT QUESTION**