

Eastern University, Sri Lanka
Faculty of Commerce and Management
First Year Second Semester Examination in Bachelor of Business Administration
Honours/ Bachelor of Commerce Honours - 2021/2022 (August 2024)
(Proper/ Repeat)

DAF 1023 COST AND MANAGEMENT ACCOUNTING

Answer All Questions in the Answer Script

Time: 03 Hours

No. of Questions: 05

No. of Pages: 08

01. I. Write the most appropriate answer from the following multiple-choice questions in your answer script.
1. An important feature of a cost centre is that
 - a) it uses only monetary information.
 - b) it must be one specific location only.
 - c) it has clearly defined boundaries.
 - d) it must be an area of the business through which products pass.
 2. Labour turnover rate is best defined as:
 - a) The number of employees successfully completing the required job training programme.
 - b) The number of labourers replaced divided by the average number of employees on the payroll.
 - c) The degree of mobility of employees from one department to another.
 - d) The number of the employees recruited each week.
 3. The term "cost" refers to
 - a) an asset that has given benefit and is now expired.
 - b) the value of the sacrifice made to acquire goods or services.
 - c) the price of products sold, or services rendered.
 - d) an asset that has not given benefit and is now expired.
 4. Which one of the following items is not included in the annual carrying cost of inventory?
 - a) Insurance on inventory
 - b) Inventory breakage on stored inventory
 - c) Cost of capital
 - d) Annual warehouse depreciation

5. Which of the following is NOT true of the budgeting process?
- a) Budgeting provides feedback to management to aid in assessing how well it's reaching its goals.
 - b) Budgets force managers to plan for the future.
 - c) Budgets force managers to consider relations among operations across the entire value chain.
 - d) The performance report is prepared as part of the master budget.
6. Which of the following budgets is the comprehensive planning document for the entire organization?
- a) Sales budget
 - b) Capital expenditure budget
 - c) Master budget
 - d) Budgeted income statement
7. Green Company has budgeted sales of 23,000 units for June and 25,000 units for July. Green's policy is to maintain its finished goods inventory at 25% of the following month's sales. Accordingly, at the end of May, Green had 5,750 units on hand. How many units must it produce in June in order to support the sales goal and maintain its policy regarding finished goods inventory?
- a) 6,250 units
 - b) 23,000 units
 - c) 23,500 units
 - d) 29,250 units
8. Which of the following best describes a "sunk cost"?
- a) A factor that restricts the production or sale of a product.
 - b) Costs that were incurred in the past and cannot be changed.
 - c) Benefits foregone by choosing a particular alternative course of action.
 - d) Expected future data that differ among alternatives.
9. The purpose of management accounting is to
- a) help banks make decisions.
 - b) past orientation.
 - c) help managers make decisions.
 - d) help investors make decision.

10. Managers should consider all of the following when deciding whether to accept a special order, except

- a) available excess capacity.
- b) the variable costs associated with the special order.
- c) the effect of the order on regular sales.
- d) fixed costs that will not be affected by the order.

(10 x 2 = 20 Marks)

II. State which of the following statements are True or False in your answer script.

- 1. Cost Accounting provides information for ascertaining the financial position as on a particular date.
- 2. A cost unit is the same as a cost centre.
- 3. Cost Accounting helps in the ascertainment of cost beforehand.
- 4. Overtime is time when the production machines are idle.
- 5. Abnormal cost usually included in cost calculation.
- 6. Fixed cost does not change in the same proportion in which output change.
- 7. Under labour incentive schemes, bonus is paid over and above the basic pay to reward extra time worked or time saved.
- 8. Relevant information is future data that do not differ among alternatives..
- 9. Labour cost can be reduced by recruiting cheap labour.
- 10. Irrelevant costs are costs that do not affect short-term decisions.

(10 x 1 = 10 Marks)

III. Provide Short Answer for the following questions

- 1. A cost can be classified based on elements are _____.
- 2. Two main objectives of Material Costing are _____.
- 3. The stock valuation method that assumes that stocks are issued in same order of receipts is called _____.
- 4. What is the level of stock determined, at which purchase requisition is initiated for fresh supplies? _____.
- 5. A worker to complete a task where time allowed minus time taken equals to _____.
- 6. Labour costs incurred on employees engaged in directly transforming the raw materials into finished goods is referred to as _____.
- 7. Cost of producing an additional unit called as _____.

8. Payment system for the workers is paid at an hourly, dailey, or weekly rate called as _____.
9. Quantitative expression of a proposed plan of action by management for a specified period for an organization referred to _____.
10. An analysis that explains the interrelationships of selling price, costs, quantity sold and profit for short-term profit planning is _____.

(10 x 1 = 10 Marks)

(Total: 40 Marks)

02. I. From the following figures relating to the manufacture of a Electronic Product during the month of July 2021.

Particulars	Rs.
Raw materials used	50,000
Direct wages	30,000
Labour hours worked	10,500 units
Labour hour rate for production overhead	Rs. 2.00
Office overhead	Rs. 20,000
Selling overhead rate per unit sold	Rs. 1.00
Units produced	20,000 units
Units sold	18,000 @ Rs. 10

Required:

Prepare a statement showing Cost and Profit per unit

(04 Marks)

- II. A company needs 1,000 electric drills per year for production process. The ordering cost for these is Rs. 100 per order and the carrying cost is assumed to be 40% of the per unit cost. For orders of less than 120, drills cost Rs.78 per unit; for orders of 120 or more the cost drops to Rs. 50 per unit.

Required:

- a) Calculate Economic Order Quantity.
- b) Should the company take advantage of the quantity discount?

(05 Marks)

III. The following is a summary of the receipts and issues of material in a factory during January 2024:

January

- 1 Opening balance 500 units @ 100 per unit
- 5 Issued 70 units
- 10 Issued 100 units
- 15 Received from supplier 220 units @ Rs. 110 per unit
- 20 Received from supplier 150 units @ Rs.120 per unit
- 24 Issued 500 units

Work out on the basis of First-in-First-out. What would be the value of stock in hand at the end of January.

(06 Marks)

(Total: 15 Marks)

03. I. The standard hour of a Job is 200 hours. The job has been completed by a worker in 120 hours. The bonus system applicable to the job is as follows.

Percentage of time saved to time allowed	Bonus
Up to 10%	10% of time saved
Next 10%	15% of time saved
Next 20%	20% of time saved
Balance	25% of time saved

The rate of pay is Rs. 2 per hour.

Calculate the total earnings of the worker.

(03 Marks)

II. A new machine was purchased on April 1, 2024, for Rs. 500,000. The total cost of all machinery inclusive of the new machine was Rs. 8,500,000. The following further information are available:

Expected life of the machine 10 years.

Scrap value at the end of 10 years Rs. 5,000.

Repairs and maintenance for the machine during the year Rs. 2,000.

Expected number of working hours of the machine per year 4,000 hours.

Insurance premium annually for all machines Rs. 4,500.

Electricity consumption for the machine per hour (Rs. 0.75 per unit) 25 units.

Area occupied by the machine 100 sq. ft. Area occupied by other machines 2,500 sq. ft.
 Rent per month of the department Rs. 800.

Lighting charges for 20 points for the whole department, out of which three points are for
 the machine, Rs. 120 per month.

Required:

Prepare the machine hour rate for the new machine on the basis of data given above.

(04 Marks)

- III. A factory has two production departments and one service department. The service department (X) renders service to production departments (A and B) in 3 : 2 ratio. The particulars of the departments and the details of expenses are given below. Determine the amount of factory overheads chargeable to the production departments.

	Rs.
Rent and Rates	5,200
Depreciation	45,000
Power	1,200
Electricity	3,500
Canteen Expenses	11,000
Insurance	2,600

Other Information

Departments	A	B	X
Direct Wages (Rs.)	30,000	20,000	5,000
H.P. of Machines	200	100	50
Light Points	40	30	10
Floor Space (sq. mt.)	400	200	50
Fixed Assets (Rs.)	500,000	300,000	100,000
Total Assets (Rs.)	700,000	400,000	200,000

(08 Mark

(Total: 15 Mark

04. I. Fill in the blanks for each of the following independent cases.

Case	Revenues (Rs.)	Variable Costs (Rs.)	Fixed Costs (Rs.)	Total Costs (Rs.)	Operating Income (Rs.)	Contribution Margin (%)
a)	1. ----	800	2. ----	1,200	1,000	3. ----
b)	2,400	4. ----	400	5. ----	700	6. ----
c)	900	500	7. ----	900	8. ----	9. ----
d)	1,800	10. ----	400	11. ---	12. ----	50%

(04 Marks)

II. Tom's Tire Tower, Inc., sells tires for Rs. 110. The unit variable cost per tire is Rs. 85. Fixed costs total Rs. 475,000.

Required:

- What is the contribution margin per tire?
- What is the breakeven point in tires?
- How many tires must be sold to earn a pretax income of Rs.450,000?
- What is the margin of safety, assuming 33,000 tires are sold?

(04 Marks)

III. Aroosh Manufacturing and sold 410,000 units of its product for Rs. 68 per unit in 2023. Variable cost per unit is Rs. 60, and total fixed costs are Rs.1,640,000.

Required:

- Calculate contribution margin and operating income.
- Aroosh's current manufacturing process is labor intensive. Kannan, Aroosh's production manager, has proposed investing in state-of-the-art manufacturing equipment, which will increase the annual fixed costs to Rs. 5,330,000. The variable costs are expected to decrease to Rs. 54 per unit. Aroosh expects to maintain the same sales volume and selling price next year. How would acceptance of Kannan's proposal affect your answers in requirement (a)?
- Should Aroosh accept Kannan's proposal? Explain.

(07 Marks)

(Total: 15 Marks)

05. I. State each item below as relevant or irrelevant in making a decision.

- Cost of roof repair made on rental property last year
- The cost of insurance on a new vehicle when deciding to buy a new vehicle
- Cost of new equipment under evaluation to replace used equipment
- Original cost of old equipment that is being evaluated for replacement

(04 Marks)

II. Four Guys Company has in its inventory 5,000 damaged televisions that cost Rs. 50,000. The televisions can be sold in their present condition for Rs. 32,000, or repaired at a cost of Rs. 43,000 and sold for Rs. 76,000. What is the opportunity cost of selling the televisions in their present condition?

(04 Marks)

III. Carlton Cookie Company produces a hand-processed gourmet cookie that is made with organic sugar. Five (5) Kgs of organic sugar are required per batch of gourmet cookies. The organic sugar costs Rs. 2.40 per Kg. The company needs to have 20% of the following month's production needs of organic sugar in ending inventory so it is on hand to start each month. A total of 120 Kgs of organic sugar are expected to be on hand on April 1.

Budgeted production of the gourmet cookies for the first four months of the upcoming year is as follows:

Number of batches of cookies to be produced in April	-	600
Number of batches of cookies to be produced in May	-	750
Number of batches of cookies to be produced in June	-	800
Number of batches of cookies to be produced in July	-	700

Required:

Prepare a direct materials budget for organic sugar for each of the months in the second quarter and for the second quarter in total. Include both the quantity of sugar to be purchased and the cost of the purchases in each month.

(07 Marks)

(Total: 15 Marks)