EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE AND MANAGEMENT

FIRST YEAR - SECOND SEMESTER EXAMINATION IN BACHELOR OF BUSINESS ADMINISTRATION / BACHELOR OF COMMERCE 2016/ 2017 (JANUARY 2019)

(PROPER/ REPEAT)

DAF 1023 COST AND MANAGEMENT ACCOUNTING

nswer all questions

alculator is permitted **Time: 03 Hours**

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1. a. It is commonly suggested that a Management Accounting System should be capable of supplying different measures of cost for different purposes. You are required to set out the main types of purposes for which cost information may be required in a business organization, and to discuss the alternative measures of cost which might be appropriate for each purpose.

(Marks 05)

b. Distinguish between, and provide an illustration of:

i. "Avoidable" and "Unavoidable" costs;

ii. "Cost centers" and "Cost units".

(Marks 05)

c. Product Wye is purchased by Ace Ltd. for resale and the 10,000 units annual demand is spread evenly throughout the year. Incremental ordering costs are Rs.100 per order and the normal unit cost is Rs.20. However, the suppliers of Wye are now offering quantity discounts for large orders. The details of these are:

Quantity ordered	Unit price (Rs.)
Up to 999	20.00
1,000 to 1,999	19.80
2,000 and over	19.60

The purchasing manager feels that full advantage should be taken of discounts and purchase should be made at Rs.19.60 per unit using orders for 2,000 units or more. Holding costs for Wye are calculated at Rs.8.00 per unit per year and this figure will not be altered by any change in the purchase price per unit.

Required:

Advise Ace Ltd. on the correct size of order for the purchase of Wye.

(Marks 08)

d. The following data relate to work at a certain factory.

Normal working day 8 hours

Basic rate of pay per hour Rs.600

Standard time allowed to produce 1 unit 2 minutes

Premium bonus 75% of time saved at basic rate

What will be the labour cost in a day when 340 units are made?

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02. a. Briefly describe material handling procedures.

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b. A furniture making business manufactures quality furniture to customers' orde three production departments and two service departments. Budgeted overhe for the coming year as follows:

	Total (Rs.)
Rent and Rates	16,000
Machine insurance	6,000
Depreciation	18,000
Production supervisor's salaries	24,000
Heating Lighting	6,400
	70,400

The three production departments – A, B and C and the two service departme and Y, are housed in the new premises, the details of which, together wi statistics and information are given below.

	Departments			
Details	**A**	**B**	**C**	**X**
Floor area occupied (sq. metres)	3,000	1,800	600	600
Machine value (Rs.'000)	24	10	8	4
Direct labour hours budgeted	3,200	1,800	1,000	
Labour rates per hour (Rs.)	3.80	3.50	3.40	3.00
Allocated overheads: Specific to each department (Rs.'000)	2.8	3.50	3.40	3.00
Service Department X's costs apportioned	50%	25%	25%	
Service Department Y's costs apportioned	20%	30%	50%	

Required:

i. Prepare a statement showing the overhead cost budgeted for each department, showing the basis of apportionment used. Also calculate suitable overhead absorption rates.

(Marks 12)

ii. Two pieces of furniture are to be manufactured for customers. Direct costs are as follows:

	Job 123	**Job 124**
Direct Material	Rs. 154	Rs. 108
Direct Labour	20 hours Dept. A	16 hours Dept. A
	12 hours Dept. B	10 hours Dept. B
	10 hours Dept. C	14 hours Dept. B

Calculate the total costs of each job.

(Marks 06)

iii. If the firm quotes prices to customers that reflect a required profit of 25% on selling price, calculate the quoted selling price for each job.

(Marks 02)

(Total Marks 25)

03. a. Magic Ltd. manufactures two products, known as Luxx and Raani. Luxx is produced in department 1 and Raani in department 2. The following information is available for 2019.

Standard material and labour costs:

Detail	**Rs.**
Material P	25.00 per unit
Material Q	32.00 per unit
Direct labour	150.00 per hour

The standard material and labour usage for each product is as follows:

Detail	**Luxx**	**Raani**
Material P	12 units	10 units
Material Q	6 units	8 units
Direct labour	8 hours	7 hours

Other relevant data is as follows for the year 2019:

Detail	Finished product	
	Luxx	Raani
Forecast sales (units)	9,000	3,500
Selling price per (units)	Rs.45	Rs.40
Ending inventory required (units)	2,540	1,800
Beginning inventory (units)	370	160

Detail	Direct material	
	Material P	Material Q
Beginning inventory (units)	6,000	4,000
Ending inventory required (units)	8,400	7,300

You are required to prepare the following budgets:

i. Sales budget
ii. Production budget
iii. Direct materials usage budget
iv. Direct materials purchase budget
v. Direct labour budget

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b. The following particulars were obtained from the books of a firm for two periods

Particulars	Period I	Period II
Units sold	7,000	9,000
Selling price per unit	Rs.100	Rs.100
Profit or Loss	Rs.10,000 (profit)	Rs.10,000 (Loss)

Calculate:

i. P/V ratio
ii. The amount of fixed expenses
iii. Break-even point
iv. Profits when sales were Rs.1,000,000
v. Margin of safety for the period II

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4 a. PQ Ltd had the following transactions in one of its raw material during December 2018.

Opening Stock		50 units	@ Rs.15 each
December 6	Bought	80 units	@ Rs.18 each
9	Used	70 units	
14	Bought	90 units	@ Rs.19 each
15	Used	100 units	
17	Bought	150 units	@ Rs.20 each
20	Used	40 units	
24	Used	60 units	
28	Bought	50 units	@ Rs.22 each
30	Used	60 units	

You are required to write up storage ledger card using FIFO method of stock valuation.

(Marks 05)

b. From the following information, calculate earnings of each worker under Rowan Plan.

Hourly rate of wages		Rs. 2
Standard time allowed		10 hours
Actual time taken by worker	A	12 hours
	B	10 hours
	C	07 hours

(Marks 05)

c. AB is a manufacturing company which is specialized for an industrial product. Production Director has just raised his concerns that the factory modernization can no longer be delayed due to higher level of competition being faced by the company. The board of Directors now has arrived at a conclusion that the modernization should commence in beginning of March 2019 but only after running a proper analysis on the cash position of the company.

During the modernization, which is expected to take four months to complete, no production of the company's single product will be possible.

The following additional information is available.

i. Sales/Debtors: Demand forecasts for the month under review would be as follows.

Nov 2018	Dec 2018	Jan 2019	Feb 2019	Mar 2019	Apr 2019	May 2019	Jun 2019
800 units	800 units	800 units	700 units	700 units	700 units	900 units	900 units

The product is priced and sold at Rs.20000 per unit.

All sales are on credit, 50% being received in cash in the month following the month of sale and 50% in the month after that.

ii. Production/ finished goods stock: Production will be at a level of 1200 month for January and February 2019. Finished goods stock is 2800 u beginning of January 2019.

iii. Raw material stock: Raw material stock is Rs.7.2 million at the beginning o 2019. This will be increased by the end of January 2019 to Rs.8 million an to Rs.2 million by the end of February 2019.

iv. Cost per unit

Variable cost (Rs):

Raw material	7000
Direct labour	4000
Overhead	2000

Fixed cost (Rs):

Overhead	5000

Fixed overheads have been apportioned to units on the basis of the norm level of 800 units per month and include depreciation of Rs. 800,000 per m addition to the above unit costs, overtime premium of Rs.1 million per mont incurred in month January and February 2019. During the modernization cost will be avoided, apart from direct labour which will be incurred at t equivalent to 800 units production per month. Outlays on fixed overheads reduced by Rs.800,000 per month during the modernization.

v. Payments: Creditors for raw materials, which stand at Rs.5.4 million beginning of January 2019, are paid in the month following purchase. A payments are made in the month in which the liability is incurred.

vi. Liquidity: The company expects a bank overdraft balance of Rs. 7.8 millio beginning of January 2019.

Required:

Prepare a monthly cash budget covering the six months since January 2019.

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