

**EASTERN UNIVERSITY, SRI LANKA**  
**FACULTY OF COMMERCE AND MANAGEMENT**  
**SECOND YEAR/ FIRST SEMESTER EXAMINATION IN BUSINESS ADMINISTRATION**  
**COMMERCE 2003/ 2004 (DECEMBER 2004)**



**COM 2053 COST ACCOUNTING**

Answer all Questions

Time : 03 Hours

- 01 (i) What is Cost Accounting? Discuss briefly its important objectives in a business firm?  
(03 marks)
- (ii) How does cost accounting help in the planning and control of operations of a business enterprise.  
(04 marks)
- (iii) Describe the functions and responsibilities of the purchasing department of a manufacturing organization.  
(04 marks)
- (iv) What are opportunity costs? Are opportunity costs relevant in decision-making? Give examples in support of your answer.  
(04 marks)
- (v) PK Co. Ltd. has been buying a given item in lots of 1,200 units, which is a six months' supply. The cost per unit is Rs. 12/- and the ordering cost is Rs. 8/- per order. Carrying cost is 25% of average inventory cost. You are requested to calculate the savings per year by buying in economical ordering quantity.  
(08 marks)
- (vi) "All future costs are relevant" Do you agree? Why?  
(03 marks)
- (vii) Cost Accounting is an unnecessary luxury for business establishments. Do you agree with the statement? Discuss.  
(03 marks)
- (viii) Explain fixed cost and Sunk costs? Are all fixed costs sunk costs? Explain.  
(04 marks)
- (ix) Write a brief note on the meaning and objectives of cost audit.  
(03 marks)
- (x) What is a cost driver? Give three examples.  
(04 marks)

(Total 40 marks)

02. (i) A firm operates a process, the details of which for a period were as follows :  
There was no opening work-in -progress.

During the period 8,250 units were received from the previous process at a value of Rs. 453,750, labour and overheads incurred were Rs. 350,060 and material introduced was Rs. 24,750.

At the end of the period the closing work-in-process was 1,600 units, which were 100% complete in respect of materials, and 60% complete in respect of labour and overheads.

The balance units were transferred to finished goods.

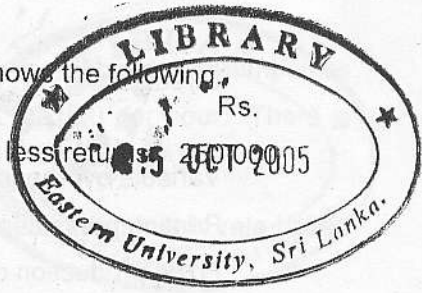
**Requirements :**

- Calculate the number of units transferred to finished goods.
- Calculate the cost per equivalent units produced.
- Prepare the process account.

(08 marks)

- (ii) A shop – floor supervisor of a small factory presents the following per unit cost for Job No. 421 to determine the selling price :

Materials	Rs 70
Direct wages (18 hours @ Rs. 2.50) (Department X, 8 hours; Department Y, 6 hours; Department z, 4 hours)	45
Chargeable expenses (Special stores items)	5
	<hr/> 120
Add 33.33 percent for expenses	40
<b>Total</b>	<hr/> <b>160</b> <hr/>



Analysis of the profit and loss A/C for the current year shows the following.

	Rs.	Rs.	Rs.	
Materials used		150,000	Sales less returns	250,000
Direct wages :				
Department X	10,000			
Department Y	12,000			
Department Z	8,000	30,000		
Special stores items		4,000		
Overheads :				
Department X	5,000			
Department Y	9,000			
Department Z	2,000	16,000		
Gross profit c/d		50,000		
		250,000		250,000
Selling expenses		20,000	Gross profits b/d	50,000
Net profit		30,000		
		50,000		50,000

It is also noted that average hourly wage rates for the 3 departments, X, Y, and Z are similar. Direct labour – hour method is followed to absorb overheads.

Your are required to :

- a. Draw up a job cost sheet
- b. Calculate revised cost for the current year, using actual figures as basis; and
- c. Add 20 percent to total costs to determine selling price.

(12 marks)

(Total 20 marks)

03. You are the management accountant of publishing and printing company, which has been asked to quote for the printing of a programme for the local Temple festival. The work would be carried out in addition to the normal work of the company. Because of existing commitments, some weekend working would be required to complete the printing of the programme. A trainee accountant has produced the following cost estimate based upon the resources required as specified by the production manager.

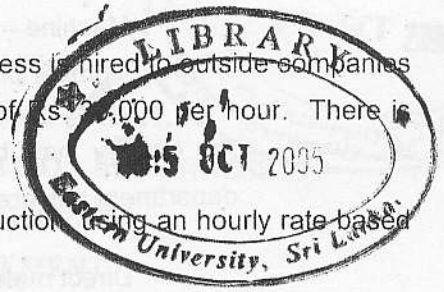
	Rs.'000
Direct materials – paper (book value)	500
- inks (purchase price)	240
Direct labour	
- skilled 250 hours @ Rs. 400/-	100
- unskilled 100 hours @ Rs. 350/-	35
Variable overhead – 350 hours @ Rs. 400/-	140
Printing press depreciation – 200 hours @ Rs. 250/-	50
Fixed production costs – 350 hours @ Rs. 600/-	210
Estimating department costs	40
	1,315
	1,315

You are aware that considerable publicity could be obtained for the company if you are able to win this order and the price quoted must be very competitive.

The following notes are relevant to the cost estimate above :

1. The paper to be used is currently in stock at a value of Rs. 500,000. It is of an unusual colour which has not been used for some time. The replacement price of the paper is Rs. 800,000, whilst the scrap value of that in stock is Rs. 250,000. The production manager does not foresee any alternative use for the paper if it is not used for the village fair programmes.
2. The inks required are not held in stock. They would have to be purchased in bulk at a cost of Rs. 300,000. 80% of the ink purchased would be used in printing the programmes. No other use is foreseen for the remainder.
3. Skilled direct labour is in short supply, and to accommodate the printing of the programmes, 50% of the time required would be worked at weekends for which a premium of 25% above the normal hourly rate is paid. The normal hourly rate is Rs. 400 per hour.
4. Unskilled labour is presently under utilized, and at present 200 hours per week are recorded as idle time. If the printing work is carried out at a weekend, 25 unskilled hours would have to occur at this time, both the employees concerned would be given two hours time off (for which they would be paid) in lieu of each hour worked.
5. Variable overhead represents the cost of operating the printing press and binding machines.

6. When not being used by the company, the printing press is hired to outside companies for Rs. 60,000 per hour. This earns a contribution of Rs. 20,000 per hour. There is unlimited demand for this facilities.
7. Fixed production costs are those absorbed into production using an hourly rate based on budgeted activity.
8. The cost of the estimating department represents time spent in discussions with the village fair committee concerning the printing of its programme.



**Requirements :**

- (a) Prepare a revised cost estimate using the opportunity cost approach, showing clearly the minimum price that the company should accept for the order. Give reasons for each resource valuation in your cost estimate.
- (b) Explain why contribution theory is used as a basis for providing information relevant to decision making.

(16 marks)

(04 marks)

(Total 20 marks)

04. (i) a. Distinguish between cost allocation, cost apportionment and cost absorption.
- b. Explain in brief various methods for apportionment of service department's cost over production departments.
- (ii) Atlas Engineering Limited accepts a variety of jobs which require both manual and machine operations. The budgeted profit and loss account for the current period is as follows : (Rs in million)

(03 marks)

(03 marks)

Sales		75
Cost :		
Direct materials	10	
Direct labour	5	
Prime cost	<hr/>	15
Production overheads	30	
Production cost	<hr/>	45
Administrative, selling and distribution overheads	15	60
Profit		<hr/>
		15

Other budgeted data :

Labour – hours for the period	25,000
Machine – hours for the period	15,000
Number of jobs for the period	300

An enquiry has been received recently from a customer and the production department has prepared the following estimate of the prime cost required for the job

Direct materials	Rs. 2,500
Direct labour	2,000
Prime cost	<u>4,500</u>
Labour – hours required	<u>80</u>
Machine – hours required	50

You are required to :

- Calculate by different methods, six overhead absorption rates for absorption of production overhead and comment on the suitability of each.
- Calculate the production overhead cost of the order based on each of the above rates.
- Give your recommendation to the company.

(14 marks)

(Total 20 marks)