

EASTERN UNIVERSITY SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT
DEPARTMENT OF COMMERCE

THIRD YEAR SECOND SEMESTER EXAMINATION IN SCIENCE 2004/2005 (OCTOBER 2006)

OC – 301 COST ACCOUNTING

Calculator Permitted

Time: 2.00 hrs

Answer All Questions

01.

- i. What is meant by cost accounting? Explain the objectives of cost accounting.
- ii. In what manner does cost accounting differ from financial accounting?
- iii. Briefly describe of behavioral based classification of cost. Explain the meaning of term used under this classification.
- iv. The data regarding inventory of a company are given below. Compute economic order quantity(EOQ).
About 50 items are required every day for a machine. A fixed cost of Rs. 50 per order is incurred for placing an order. The inventory carrying cost per item amounts to Rs. 0.02 per day.
- v. Calculate the number of order; if the annual demand is Rs. 7500 and EOQ is 500.
- vi. The following information has been obtained from the costing records of manufacturing concern in respect of Job No 376.

	Rs.	
Material	-	10500
Direct wages	-	6400

Variable over heads estimated based on the usage of two different machines;

Machine I : 200 hrs @ Rs. 3.00 per hour

Machine II : 175 hrs @ Rs 2.00 per hour

Fixed over head estimated Rs 35000 for 3500 machine hours

Calculate cost of Job No: 376 and find the price to be charged so as to earn a profit of 25% on selling price.

- vii. The following information is obtained from A Ltd in a certain year;

	Rs.	
Sales	-	120,000
Variable cost	-	60,000
Fixed cost	-	40,000

- a) Find C/S ratio and Break even point in Rs.
- b) Calculate the effect of 20 % increase in selling price.

viii. You are given the following data

Fixed cost	-	Rs. 50,000
Variable cost	-	Rs. 5 per unit
Selling Price	-	Rs. 25 per unit

Calculate;

- a) Break even point
- b) Sales when it is desired to earn a profit of Rs. 40,000.

ix. The following information is extracted related to material X from stores ledger during January 2006.

January	
01	Opening balance 400 units @Rs.1.00
20	Purchased 100 units @ Rs. 2.00
23	Issue 250 units
25	Issue 170 units

This reveals that on the 28th there was a shortage of 5 units.

Prepare store ledger accounts using FIFO method.

x. Nathan accepted a contract for construction of a building for Rs. 10, 00,000. During the first year, the amounts spent were;

	Rs.	
Material	-	120,000
Labour	-	170,000
Machinery	-	40,000
Other Expenses-		90,000

At the end of the year, the machinery was valued at Rs. 25,000 and materials at site were of the value of Rs. 15,000. Work certified during the year totaled Rs. 475,000. In addition work in progress not certified at the end of the year had cost Rs. 20,000.

Prepare contract account in the books of Nathan.

(10 X 4 = 40 marks)

02.

i. "Inventory control is a system which ensures the provision of required quantity of inventories, of the required quality, at the required time, with the minimum amount of capital"

a) Briefly describe the factors which have influence on the stock level of an organization

(3 marks)

b) Shekara enterprises manufacture a special product M. The following particulars were collected.

Re – order quantity	250	units per week
Normal usage	50	units per week
Minimum usage	25	units per week
Maximum usage	75	units per week
Re – order period	4 - 6	weeks

You are required to calculate

1. Re – order level
2. Minimum stock level
3. Maximum stock level

(12 marks)

ii. A company has two production departments A and B, and one service department X.

The following data are extracted from the company for a particular given period.

Rs.

Rent and rates	-	25,000
Lighting and Electricity	-	17,000
Indirect wages	-	8,000
Power	-	3,000

The following are further details which are also available

	Total	Dept A	Dept B	Dept X
Floor space (Sq. mts)	10000	5000	3000	2000
Light points (Nos)	170	100	40	30
Direct wages (Rs.)	20000	10000	7000	3000
Horse power of machines	100	70	20	10
Working Hours		3430	3740	1900

The expenses of service departments of X is to be allocated as follows

Service department	Production department	
	A	B
X	60%	40%

- Compute the over head rates of production departments
 - Determine total cost of product with the material cost of Rs.200 and direct labour cost of Rs.125 which would consume 5 hours and 4 hours in department A and B.
- (15 marks)

(Total marks 30)

03.

i.

- List out three causes for labour turn over?
(3 marks)
- In a manufacturing company monthly wage guaranteed for a worker is Rs. 5000 and standard out put for the month is 1000 units representing 100 % efficiency. The monthly wage paid with out bonus to those workers who show up to 70 % of the efficiency standard. Additional production bonus is Rs.100 for each percentage of actual production exceeding 70% of efficiency standard.

(example)

Efficiency Standard	Bonus
69 %	Nil
70%	Nil
71 %	Rs. 100
72 %	Rs. 200

Actual production of workers in this company during the month of April, 2006 is given as follows

Workers	Outputs (Units)
A	750
B	1250
C	700

You are require to calculate monthly gross earnings of three workers of A, B and C.

(13 marks)

ii.

LMX company manufacturing product "L", which passes through two distinct process A and B and then to finished stock. The following information is available for the operations.

	Process A	Process B
Material consumed	8400	12600
Direct wages	7600	9800
Production over heads	3800	7010

1000 units @ Rs. 5.00 per unit were introduced in Process A. the actual out put and normal loss of the respective process are;

Process	Output	Normal loss	Scrap value
A	850	10%	5
B	800	20%	8

There is no stock or work in progress in any process.

Show two process account, abnormal loss or/and abnormal gain accounts.

(14 marks)

(Total marks 30)