EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE AND MANAGEMENT

THIRD YEAR FIRST SEMESTER EXAMINATION IN B.COM

2005/06 (AUGUST 2007)

DAF 3114 - COST ACCOUNTING

ANSWER ALL QUESTIONS **TIME: 3.00 HOURS**

01.

i. What is cost accounting? Differentiate it from financial accounting? **(04 marks)**

ii. Briefly describe of behavioral based classification of cost. Explain the meaning of different costs come under this classification. **(03 marks)**

iii. Prepare store ledger account for the month of April, 2007 from the following transaction relating to the receipt and issue of materials on the basis of FIFO method.

April	01	Opening balance 500 units @Rs. 20 per unit
	07	Received from suppliers 300 units @Rs. 25 per unit
	14	Issued 400 units
	18	Issued 200 units
	24	Received from suppliers 400 units @Rs. 30 per unit

On 28 of April, stock taking reveals that there was a shortage of 10 units. **(04 marks)**

iv. AB Ltd. manufacture a product and the following particulars are collected for the year ended 31st December 2006.

Minimum usage	500 units per week
Maximum usage	200 units per week
Reorder period	4 – 6 weeks
Reorder quantity	1000 units
Reorder level	3000 units

Find maximum and minimum level **(03 marks)**

v. A factory buys a product at Rs. 10 per product. Annual requirement is 2000 units. Carrying cost of inventory is 10% p.a and ordering cost is Rs.40 per order.

a. Calculate EOQ **(03 marks)**

b. Suppose, the purchasing officer says that if we order 2000 units at a time, we get 3% discount from the supplier. Comments the new proposal whether to accept or not. **(02 marks)**

vi. During 2006, the factory received an order for a Job No: 2168. It is estimated that the required direct materials was Rs. 85000 and direct labour was Rs. 65000. Other information as follows.

1. Machine A used for 65 hours; the machine hour rate is Rs. 5
2. Machine B used for 45 hours; the machine hour rates is Rs. 4

Other expenditures of the concern during the period was to Rs. 370000 for 20000 normal working hours.

You are required to calculate the cost of Job: 2168 and price to give 25% on selling price. **(04 marks)**

vii. Mr. X work in a factory where the following particulars are available:

1. Normal rate per hour is Rs. 60
2. Normal piece rate per hour is 20% more of time rate
3. Expected output is 20 units per hour
4. Mr. X produced 200 units in 8 hours a day

Calculate his wages for the day on;

a. Time rate basis

b. Piece rate basis **(04 marks)**

viii. During the month of April 2007, two worker of A and B produced 1800 units and 2200 units respectively. The standard production per month per worker is 2000 units. The piece rate is paid at Rs. 1.00 per unit. In addition production bonus is Rs. 25 paid for each percentage of actual production exceeding 80% over standard production. Further monthly dearness payment of fixed Rs. 2000 was paid to each worker. Calculate the **monthly** payment for each worker.

(04 marks)

ix. Ram & Co makes a single product. The following information is obtained for the budgeted year 2007.

Direct material cost per unit	Rs. 6
Direct labour cost per unit	Rs. 3
Variable over head	Rs. 3
Selling price per unit	Rs. 27
Fixed cost for the year	Rs. 60000

Calculate

a. Break even point in quantity

b. Sales to earn target profit of Rs. 150000

c. Margin of safety at the sales level of 7000 units **(05 marks)**

x. JK industries produce two products. The following information is given for the current year.

Product	**A**	**B**
Selling price per unit in Rs.	200	150
c/s ratio (%)	20%	40%
Maximum sales potential in units	15000	10000
Raw material required in units (@ Rs. 2.00 per unit)	4	5

The company uses a single raw material in all three products. During the current year, the raw material is in short supply with the value of Rs. 200000.

You are required to set product mix which will give a maximum profit keeping the short supply of raw materials in view. **(04 marks)**

(Total: 40 marks)

02.

i. List out the different type of overhead distribution bases and give the reason for it. **(02 marks)**

ii. Brandix Ltd has three production departments of P_1, P_2, and P_3 and has three service departments of office, store and workshop. The following particulars are available for the year ending 31-12-2006.

Item	Total	Production department			Service department		
		P_1	P_2	P_3	Office	store	workshop
Direct wages	75000	20000	25000	30000	-	-	-
Direct materials	110000	30000	35000	40000	-	-	-
Indirect material	13000	2000	3000	3000	1000	2000	2000
Indirect wages	35000	3000	3000	4000	10000	10000	5000
Area in sq. meters	1250	200	250	300	150	100	250
Book value of machinery	105000	30000	35000	25000	-	-	15000
Horse power of machineries	65	15	20	25	-		5
Machine hours worked	50000	10000	20000	15000	-	-	5000

Common expenses incurred for the period as follows.

Rent	Rs. 12500
Insurance for machinery	Rs. 1050
Depreciation	15% of the value of machinery
Power	Rs. 3900
Light	Rs. 1250

The expenses of service department are to be allocated in the following manner

Service departments	**Basis**
office	Direct wages
store	Direct material
workshop	Machine hours

You are required to calculate overhead absorption rate per hour in respect of three production department. **(14 marks)**

(Total: 16 marks)

03.

i.

a. Briefly state the features of process costing? **(02 marks)**

b. Ceylon sugar industry has provided the following cost information of process I relating to product Z for a period of June 2007 is as follows.

1. Opening work in progress 6000 units @ Rs. 4 per unit

   Degree of completion

Material	-	100%
Labour	-	50%

2. During the period the following cost were incurred

Material (input)	18000 units at	Rs. 111200
Labour		Rs. 35920

3. Closing work in progress 1600 units

   Degree of completion

Material	-	75%
Labour	-	60%

4. Unit transferred 18000 units
5. Normal loss 10% of total input (opening work in progress plus units put in during the period)
6. Scrap value Rs. 2.00 per unit

Required:

1. The statement of equivalent units production using FIFO method
2. Process I account

(12 marks)

ii. A contractor undertakes a contract of Rs. 1000000 on 1st of January 2006. The contractee agreeing to pay 80% of work certified. During the year the following amounts were spent;

Material	Rs. 200000
Labour	Rs. 125000
Plant	Rs. 150000
Other expenses	Rs. 30000

The following data also shown in the books on 31 - 12 - 2006.

Material at site on 31-12-2006	Rs. 30000
Pant at site on 31-12-2006	Rs. 70000
Plant sold (Costing Rs. 50000)	Rs. 40000
Material destroyed by fire	Rs. 15000
Cash received (being the 80% of work certified)	Rs. 480000
Work not certified	Rs. 40000

Prepare contract account.

(06 marks)

(Total: 20 marks)

04.

i.

a. What do you understand by standard costing? **(02 marks)**

b. A single product company has furnished the following standard cost data **per unit** of out put.

Direct materials	:	20 Kg @ Rs. 10 per Kg
Direct labour	:	12 hours @ 5.50 per hour
Selling price	:	Rs. 600 per unit

Budgeted sales for the month of December, 2006: 5000 units

The cost incurred and other relevant information for the month of December 2006 are as under.

Direct material used 100000 kg at a cost of Rs. 1050000

Direct wages paid Rs. 315000 for 63000 hours worked

Actual output is sold:4500 units sold for Rs.2610000

Assume no stocks of work in progress or finished goods at the beginning or the end of the month.

Required:

1. Material usage, price and cost variance
2. Labour rate, efficiency and cost variance
3. profit value variance

(07 marks)

ii.

a. Briefly state the advantages of budgetary control? **(02 marks)**

b. From the following information given below, you are required to prepare a cash budget for the three months of **August, September,** and **October** in the year of 2007 of the Safrex Peripherals (pvt) Ltd. Clearly shows the cash surplus or deficiency of each month.

2007 Months	Total sales (Rs.)	Purchases (Rs.)	Salaries and wages(Rs.)	Other expenses
June	150000	60000	10000	20000
July	180000	70000	12000	22000
August	210000	70000	12000	27000
September	190000	80000	15000	30000
October	250000	90000	15000	35000

1. The expected cash balance on 1st August 2007 would be Rs. 90000.
2. 10% of sales are on cash basis.
3. 50% of credit sales collected in the 1st month after the sale.

4. 45 % of credit sales is collected in the 2nd month after the sales and the balance of 5% of credit sales is to be treated as bad debt.
5. Period of credit as follows other than sales

Purchases	-	02 months
Salaries and wages	-	½ month
Other expenses	-	01 month

6. Plant and machinery will be installed in September 2007 at a cost of Rs. 100000. The monthly installment of Rs. 25000 is payable on September onwards.
7. Annual depreciation charge of Rs. 36000 is included in other expenses
8. Divident income of 15% on preference share capital of Rs.500000 will be paid in October.
9. Advance of Rs. 9000 to be received for the sale ofvehicles in September.
10. Dividend from investment amounting to Rs. 15000 are expected to receive in August.
11. Income tax advance is to be paid in August Rs. 10000.

(13 marks)
(Total: 24 marks)