UNIVERSITY OF KELANIYA – SRI LANKA

Centre for Distance and Continuing Education

FACULTY OF COMMERCE & MANAGEMENT STUDIES

Bachelor of Commerce (Special) Degree Second Year Examination (External) – 2016

May 2022

BCOM E2045 – Cost & Management Accounting

No. of questions: Seven (07) **Time: 03 hours**

Answer any five questions.

Question No. 01.

a). What are the dissimilarities between financial accounting and management accounting?

(04 Marks)

b). Briefly explain three costing techniques used in present business organizations.

(06 Marks)

c). Briefly explain the following terms:

i). Cost Centre
ii). Cost Allocation
iii). Cost Apportionment
iv). Cost Absorption

(2.5 Marks x 4 = 10 Marks)

(Total 20 Marks)

Question No. 02.

a). State what is Activity Based Costing (ABC)? How are product costs determined in ABC?

(04 Marks)

b). Following in the data for 2021, for Dilma Ltd and there is no beginning inventory.

Production 2,200 units

Variable Manufacturing cost.

Direct material (Rs. 40 per one unit)	Rs. 88,000
Direct Labor (Rs. 20 per one unit)	Rs. 44,000
Variable Overhead (Rs. 10 per one unit)	Rs. 22,000
Fixed Manufacturing Overhead	Rs. 44,000

Sales 2,000 units

Selling and administration Expenses:

Variable Sell. Expenses	Rs. 10 per unit
Fixed Sell & Ad Expenses	Rs. 8,000

Selling price Rs. 300 per unit

Required:

i). Prepare a marginal costing income statement.

(10 Marks)

ii). Indicate what would have been the impact on profit in the sales were

1,800 units 2,200 units

(06 Marks)

(Total 20 Marks)

Question No. 03.

a). Briefly explain the types of costs considered in Stock Control.

(04 Marks)

b). Ninja (Pvt.) Ltd manufactures a range of electronic products. The supplier of component Y has informed Ninja (Pvt.) Ltd that it will offer a quantity discount of 1% if Ninja (Pvt.) Ltd places an order of 10,000 components or more at any one time.

Details of component Y are as follows:

Cost per component before discount	Rs.2.00
Annual purchases	150,000 components
Ordering costs	Rs.360 per order
Holding costs	Rs. 3.00 per component per annum

Required:

(i) Calculate the total annual cost of holding and ordering an inventory of component Y using the economic order quantity and ignoring the quantity discount.

(04 Marks)

(ii) Calculate whether there is a financial benefit to Ninja (Pvt) Ltd from increasing the order size to 10,000 components in order to qualify for the 1% quantity discount.

(06 Marks)

c). From the following data, compute the different stock levels.

Maximum usage in a month	600 units
Minimum usage in a month	400 units
Maximum lead time	5 months
Minimum lead time	1 months
Reordering quantity	3000 units

(06 Marks)

(Total 20 Marks)

Question No. 04

GD (Pvt) Ltd produces a single product called "Bit". The company operates a standard absorption costing system and a just-in-time purchasing system.

Standard production cost details per unit of product "Bit" are:

	Rs.
Materials (5 Kg at Rs.20 per Kg)	100
Labour (4 hours at Rs.10 per hour)	40
Variable Overheads (4 hours at Rs.5 per hour)	20
Fixed Overheads (4 hours at Rs. 12.50 per hour)	50
	210

Fixed and variable overheads are absorbed on the basis of labour hours.

Budget data for product "Bit" for July are detailed below:

Production and sales	1,400 units
Selling price	Rs. 250 per unit
Fixed Overheads	Rs. 70,000

Actual data for product "Bit" for July are as follows:

Production and sales	1,600 units
Selling price	Rs. 240 per unit
Direct materials	7,300 Kg costing Rs. 153,300
Direct labour	5,080 hours at Rs. 9 per hour
Variable overheads	Rs. 25,400
Fixed overheads	Rs. 74,000

Required:

Calculate the below-mentioned variances:

i). Sales Price Variance
ii). Sales Volume Profit Variance
iii). Material Price Variance
iv). Material Usage Variance
v). Labour Rate Variance
vi). Labour Efficiency Variance
vii). Variable Overhead Expenditure Variance
viii). Variable Overhead Efficiency Variance
ix). Fixed Overhead Expenditure Variance
x). Fixed Overhead Volume Variance

(02 Marks x 10 = Total 20 Marks)

Question No. 05

a) Explain why it is important for a business to prepare a cash budget.

(02 Marks)

b) State THREE ways, other than borrowing, of improving the cash flow position of a business.

(03 Marks)

c) TGK (Pvt.) Ltd is preparing its cash budgets for January, February and March.

Budgeted data are as follows:

	November	December	January	February	March
Sales (units)	750	800	800	850	900
Production (units)	800	800	850	900	950
Direct labour and variable overheads incurred	Rs. 48,000	Rs. 48,000	Rs. 51,000	Rs. 54,000	Rs. 56,000
Fixed overheads incurred (excluding depreciation)	Rs. 20,000	Rs. 20,000	Rs. 20,000	Rs. 20,000	Rs. 20,000

The selling price per unit is Rs.200. The purchase price per kg of raw material is Rs.25. Each unit of finished product requires 2 kg of raw materials which are purchased on credit in the month before they are used in production. Suppliers of raw materials are paid one month after purchase. All sales are on credit. 80% of customers, by sales value, pay one month after sale and the remainder pay two months after sale.

The direct labour cost, variable overheads and fixed overheads are paid in the month in which they are incurred.

Machinery costing Rs.100,000 will be delivered in February and paid for in March.

Depreciation, including that on the new machinery, is as follows:

Machinery and equipment Rs.3,500 per month

Motor vehicles Rs.800 per month

The opening cash balance at 1 January is estimated to be Rs.15,000.

Required:

Prepare a cash budget for each of the three months January, February and March.

(15 Marks)

(Total 20 Marks)

Question No. 06

The following information is available in respect of Process 2 of product Y for the month of March 2021.

Opening Stock 2,000 units	
Direct Material 1 (transferred in cost)	Rs.8,000
Direct Material 2	Rs.4,000
Direct Labour	Rs.700
Production Overhead	Rs.1,600
Transferred from Process 1 (transferred in cost)	32,000 units at Rs.162,000
Transfer to Process 3	29,000 units

Direct Materials added in process 2		Rs.87,500
Direct Labour amounted to		Rs.28,600
Production Overhead absorbed		Rs.57,000
Unit Scrapped		1,000 units
Degree of Completion		
Direct Materials	100%	
Direct Labour	60%	
Production Overhead	20%	

Normal Loss was estimated 5% of production, unit scrapped realized Rs.5 each.

Closing Stock 4,000 units

Degree of Completion	
Direct Materials	50%
Direct Labour	20%
Production Overhead	20%

Required:

Prepare the process and other accounts using the Weighted Average Cost Method.

(Total 20 Marks)

Question No. 07

a) Briefly explain the concept of contribution and its use in cost–volume–profit (CVP) analysis.

(02 Marks)

b) AXC company manufactures and sells a single product that has the following cost and selling price structure:

	Rs. /Unit	Rs. /Unit
Selling Price		120
Direct Material	22	
Direct Labour	36	
Variable Overhead	14	
Fixed Overhead	12	
		(84)
Profit Per Unit		36

The fixed overhead absorption rate is based on the normal capacity of 2,000 units per month. Assume that the same amount is spent each month on fixed overheads. Budgeted sales for next month are 2,200 units.

Required:

i). the breakeven point, in sales units per month

(02 Marks)

ii). the margin of safety for next month

(02 Marks)

iii). the budgeted profit for next month

(02 Marks)

iv). the sales required to achieve a profit of Rs.96,000 in a month.

(02 Marks)

c) Drill (Pvt.) Ltd manufactures three products E, F and G. The products are all finished on the same machine. During the next period, the production manager is planning essential major maintenance of the machine. This will restrict the available machine hours to 1,400 hours for the next period. Data for the three products are:

	Product E *Rs. per unit*	**Product F** *Rs. per unit*	**Product G** *Rs. per unit*
Selling Price	30	17	21
Variable Cost	13	6	9
Fixed Production Cost	10	8	6
Other Fixed Cost	2	1	3.50
Profit	5	2	2.50
Maximum Demand (Units/Period)	250	140	130

No inventories are held.

Fixed production costs are absorbed using a machine hour rate of Rs. 2 per machine hour.

Required:

*D*etermine the production plan that will maximize profit for the forthcoming period.

(10 Marks)

(Total 20 Marks)