UNIVERSITY OF KELANIYA – SRI LANKA

Centre for Distance and Continuing Education

Faculty of Commerce & Management Studies

Bachelor of Commerce (Special) Degree Third Year Examination (External) – 2019

July – 2025

BCOM E 3045 - Cost & Management Accounting

No. of Questions: Four (05) **Time: 03 Hours**

Answer Any Four (04) Questions

Question No 01

a) Explain the importance of Management Accounting for business decision- making

(04 Marks)

b) Distinguishing between direct and indirect costs using examples.

(06 Marks)

c) Explain the following terms with an appropriate example.

i. Variable Cost
ii. Irrelevant Cost
iii. Sunk Cost
iv. Fixed Cost
v. Step-fixed Cost

(05 x 03 Marks =15 Marks)

(Total Marks 25)

Question No 02

Hemal Limited is a dolls manufacturing company, and the following data was revealed for 2024. It is assumed that there is no beginning inventory.

Production Units	7,600 units
Sales Units	6,800 units
Selling price (2 per Units)	Rs.930 per unit
Variable manufacturing costs	
Direct material	Rs.224,000
Direct labour	Rs.112,000
Variable overhead	Rs.56,000
Fixed manufacturing overheads	Rs.100,800
Variable selling and administration expenses (per Units)	Rs.75 per unit
Fixed selling and administration expenses	Rs.45,000

Required:

a) Prepare the income statement based on Marginal costing.

(08 Marks)

b) Prepare the income statement based on Absorption costing.

(08 Marks)

c) Explain the difference between net profit under absorption costing and marginal costing.

(04 Marks)

d) Which costing method is more favorable in decision-making in a firm? Justify your answer.

(05 Marks)

(Total Marks 25)

Question No 03

a) Differentiate job costing and batch costing with appropriate examples. (06 Marks)

b) Vihara (Pvt) Ltd is planning to sell a batch of 230 special sets of equipment (Job-560) to a retailer for Rs. 4,235,000. The following information is related to Job 560.

	Cost (Rs.)
Direct Material	575,000
Direct Labour	215,000

The total manufacturing overhead is Rs.732,000. The overhead allocation base is machine hours and Job-560 used 830 machine hours. All jobs used 34,000 machine hours. By using the seven-step approach to Job Costing, calculate the cost of Job-560.

(07 Marks)

c) GardenEase Solutions Limited is a gardening tool supplier. Each month GardenEase Solutions Limited accepts batch orders for gardening tools where material and labour costs are booked at actual costs. Overheads are charged at a rate per labour hour. The selling price is contracted at Rs.65/- per tool. Labour is paid at the rate of Rs.5 per hour. GardenEase Solutions Limited has provided the following information for the last 03 months of the year 2025.

Month	Batch Output (Units)	Material Cost (Rs)	Labour Cost (Rs)	Overheads (Rs)	Total Labour Hours
March	5,450	27,250	10,900	43,600	17,440
April	5,700	28,500	11,400	45,600	11,400
May	5,200	26,000	10,400	41,600	26,000

You are required to calculate.

i. Cost per each gardening tool.

(04 Marks)

ii. Total profit for the above 03 months.

(04 Marks)

iii. Profit per each batch order.

(04 Marks)

(Total Marks 25)

Question No 04

a) Sanduni Autos is currently negotiating with a supplier, MarkLines Autos, to outsource a steel frame they manufacture. Sanduni Autos currently manufacture 250 steel frames per month. The MarkLines Autos has offered to supply 250 steel frames per month at a price of Rs.280,000 per unit guaranteed for a minimum of two years. If Sanduni Autos outsources steel frames, the direct labour force currently employed in producing steel frames will be made redundant. No redundancy cost will be incurred. Direct materials and variable overheads are avoidable if steel frames are outsourced. Fixed manufacturing overheads would be reduced by Rs.1,000,000 per month, but non-manufacturing costs would remain unchanged. Assume initially that the capacity required to manufacture steel frames has no alternative use in Sanduni Autos. The costs currently assigned to the manufacturing of steel frames are as follows. Assume these costs are expected to remain unchanged in the foreseeable future if Sanduni Autos continues to manufacture steel frames.

	Unit Cost (Rs.)
Direct Material	125,000
Direct Labour	105,000
Variable Manufacturing Overhead	25,000
Fixed Manufacturing Overhead	30,000
Non-manufacturing Overhead	15,000
Total Cost	300,000

Should Sanduni Autos manufacture or outsource steel frames? Explain with relevant calculations. (15 Marks)

b) Assume this as a separate scenario from the above (a). It was analyzed that extra capacity of outsourcing steel frames, can be used to manufacture and sell 500 units of car accessories at a price of Rs.100,000 per unit. All the labour force required to manufacture steel frames would be used to manufacture these car accessories. The variable manufacturing overheads, the fixed manufacturing overheads and the non-manufacturing overheads would be the same as (a) the costs incurred for manufacturing steel frames. The material required to manufacture steel frames would not be required but additional materials required to manufacture car accessories would cost Rs.12,000 per unit. Explain how the decision of Sanduni Autos would impact using relevant calculations.

(10 Marks)

(Total Marks 25)

Question No 05

a) Explain the terms of 'normal loss, abnormal loss, and abnormal gain' used in process costing. (06 Marks)

b) Cuppy Cake (Pvt) Ltd has three distinct processes mixing, baking and packing before the productis complete to be delivered. At the beginning of the week, 50 kg of material was added to the mixing, and at the end of the week, 50 kg of cakes were produced. Production overhead cost for the period is accounted for at Rs.120,000. The overhead cost is to be apportioned to various processes based on wages. Assume there is no work in process or process stock existed at the beginning or end of the week. The following information is available from the books of Cuppy Cake (Pvt) Ltd.

	Mixing	Baking	Packing
Material Cost (Rs.)	60,000	30,000	20,000
Labour Cost (Rs.)	35,000	15,000	20,000
Other Direct Expenses (Rs.)	10,000	15,000	10,000

You are required to calculate the following:

i. Process account for mixing division (06 Marks)

ii. Process account for baking division (05 Marks)

iii. Process account for packing division (04 Marks)

iv. Finished goods account (04 Marks)

(Total Marks 25)