

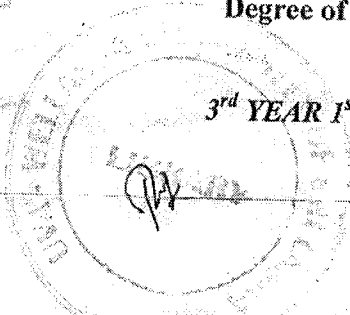
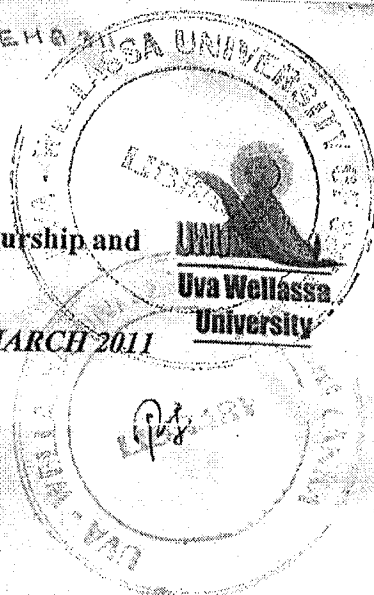
# Uva Wellassa University

Faculty of Management

Degree of Bachelor of Business Management in Entrepreneurship and Management

3<sup>rd</sup> YEAR 1<sup>st</sup> SEMESTER EXAMINATION – FEBRUARY / MARCH 2011

EMG 311-3 Cost and Management Accounting



## Part C- Essay Questions

### Instructions

Part C contains three (03) questions.

Answer only two (02) questions

Marks allocated for part C is Fifty (50)

Show all workings

1.

a) Briefly describe the term "Job Costing" indicating the purpose and special features of job costing?

(4 marks)

b) The information given below has been taken from the costing records of an engineering works in respect of job order number UE 0020.

Material cost

Rs.5450.00,

Labour cost

Department	Hours required	Rate per hour
Production	60	50
Assembly	20	45
Finishing	10	65

Total overhead expenses for these departments are given below:

Variable overhead cost

Rs. 5000.00 for 500 labour hours in production department

Rs. 3000.00 for 150 labour hours in assembly department

Rs. 5000.00 for 250 labour hours in finishing department

Fixed overhead cost estimated at Rs.20,000.00 for 10,000 normal working hours.

Required

Calculate the cost of job order number UE 000201.

(6 marks)

3. In recent years, many have argued that standard costing and variance analysis should not be used for cost control and performance evaluation in today's manufacturing context. Its use could lead to a behavior that is inconsistent with the strategic manufacturing objectives that firms need to achieve in order to survive in today's competitive international economic environment.
- I. Explain the arguments referred to in the above paragraph concerning the relevance of standard costing and variance analysis (14 marks)
  - II. Explain the arguments in favour of the relevance of standard costing and variance analysis in the modern manufacturing environment (11 marks)

4. ABC Ltd. has recently introduced an Activity-based Costing system. It manufactures three products, details of which are set out below:

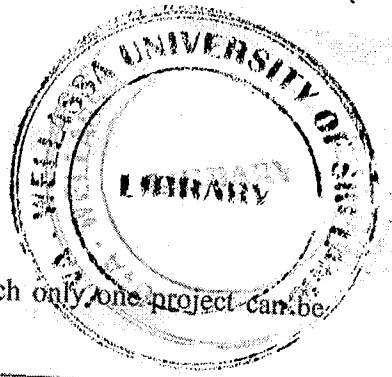
	<i>Product X</i>	<i>Product Y</i>	<i>Product Z</i>
Budgeted annual production (units)	100,000	100,000	50,000
Batch size (units)	100	50	25
Machine set-ups per batch	3	4	6
Purchase orders per batch	2	1	1
Processing time per unit (minutes)	2	3	3

Three cost pools have been identified. Their budgeted costs for the year ending 31 December 2007 are as follows:

Machine set-up costs	USD 150,000
Purchasing of materials	USD 70,000
Processing	USD 80,000

Calculate the budgeted overhead unit cost for Product Y for inclusion in the budget for 2007.

(25 marks)



- d) The following data are relating to two projects out of which only one project can be undertaken:

Description	Project A	Project B
Initial Investment	50,000	50,000
Year 1 Profit	30,000	10,000
Year 2 profit	22,000	10,000
Year 3 profit	10,000	36,000
Year 4 profit	11,000	35,000
Estimated resale value at the end of the year 4	10,000	10,000

Notes

A. Profit of each year has been calculated after deducting the depreciation under the straight line basis.

B. The cost of capital is 10%

You are required to;

- i. Calculate payback period and Net Present Value (NPV) for each project. (6 marks)
  - ii. State which project do you recommend to undertake after assessing under above two methods? (2 marks)
- e) Explain what should be included in effective working capital management? (10 marks)
- (Total 25 marks)

3.

- a) What is meant by economic order quantity? (1 mark)
- b) A business needs 10,000 units of raw material to complete their annual production. Estimated ordering cost per order is Rs.50.00. Holding cost per unit consists of insurance expense Rs.1.00, storage expenses Rs.2.00 and interest on the investment of inventories is Rs.1.00.

Required

- i. Show the Total cost, Holding cost and Ordering cost curves. (12 marks)