

Part B- Essay Questions 2015

Answer any three (03) questions from part B.
Marks allocated for part B: 60 Marks

01.

- i) "The direct costs are easily attributable to cost objects but charging overheads to cost object is one of the major problems faced by business organizations. As overhead costs are indirect costs which cannot be allocated to any specific job, process or production unit, it is not essential to consider the overhead costs in business decisions". Critically evaluate the above statement stating whether you agree on it or not. (10 Marks)
- ii) Assume you are the Management Accountant of Anuradha PLC. You have been asked to write a report to the board of directors of your company on how the costs can be classified based on the cost behaviour. Your report should clearly state the importance of behaviour wise cost classification and you are permitted to show sketch graphs within the body of the report. (10 Marks)

(Total Marks -20)

02. Gamlath PLC manufactures two (02) products; product A and B in two (02) divisions; processing division and assembly division. The processing division produces 1000 units of product "A" using 2000 Kgs of raw material whilst the assembly division produces 600 units of product "B" using 1000 units of product "A" per month. The entire output of processing division (product A) is transferred to the assembly division. The cost information for both divisions is given below.

Cost Item	Processing Division	Assembly Division
Direct Material	Rs.140 per kg	-
Direct Labour	Rs.100 per unit	Rs.50 per unit
Variable overhead	Rs.20 per unit	Rs.10 per unit
Fixed cost	Rs.75,000 per month	Rs. 60,000 per month

The market price of product A and product B are Rs.700 per unit and Rs.1,350 per unit respectively.

You are required to:

- i. Calculate the processing cost per unit (02 Marks)
- ii. Calculate the total profit of Gamlath PLC per month (02 Marks)
- iii. Calculate the profit of each division if the processing division transfer all its output to assembly division at 150% of their variable cost (04 Marks)
- iv. Calculate the profit of each division if the transfer price is exactly similar to the external market price. (04 Marks)
- v. Which transfer pricing technique will you recommend out of the above two methods (150% of variable cost or external market price)? Give reasons to justify your answer. (03 Marks)
- vi. Discuss the problems arising with transfer pricing and give suggestions to solve such problems (05 Marks)

(Total marks -20)

03. Lasting Leather PLC is a high quality sports shoes manufacturer and exporter in Sri Lanka. The Chairman and Chief Executive Officer, Mr. A.N.F. Fernando considers computerizing the company's ordering, inventory and billing procedure from next year onwards. The estimated annual savings from the proposed computerization process include a reduction of 8 contract basis clerical employees with monthly salaries of Rs.11,000 each, Rs. 12,000 from loss of sales per month due to stock-outs, Rs.30,000 per annum from reduced production delays caused by raw material inventory problems and Rs.4000 per month for timely billing procedures.

The purchase price of the system is Rs.400,000 and initial installation costs are Rs.75,000. These initial cash outflows will be depreciated on straight line basis to a zero book salvage value at the end of five years. Two computer specialists are required to operate the new system with annual salaries of Rs.400,000 each. Annual maintenance and operating expenses of the new system will be Rs.100,000. The company expected rate of return of this project is 14% and the company tax rate is 30%.

You are required to;

Evaluate the project using net present value technique and advice the company whether to undertake the proposed computerization project.

(20 Marks)

04. The following information is relevant to the standard and actual material costs of a manufacturing company.

Material	Standard		Actual	
	Quantity (Unit)	price (Rs)	Quantity (Units)	Price (Rs)
M I	5,250	15	5,550	18
M II	2,250	32	2,475	30
M III	1,500	50	1875	55

You are required to determine:

- i. The total material cost variance
- ii. Material price variance
- iii. Material usage variance
- iv. Material mix variance
- v. Material yield variance

(4 x 5= 20 Marks)



Part B- Essay Questions

Answer any three questions from part B.

Marks allocation for part B is 60.

01.

- i) The following details are available in respect of a consignment of 2000 kgs of material A.

Invoice price	Rs.200 per kg
Excise duty	Rs.25% on invoice price
Trade discount	10% on invoice price
Insurance	1.5% of aggregate net price
Delivery charges	Rs.1,500
Cost of containers	Rs.100 per container

50kgs of material can be stored in one container. If the empty containers were returned back within three (03) weeks, a rebate is allowed at Rs.60 per container. Two container load of material was rejected on inspection due to damage goods.

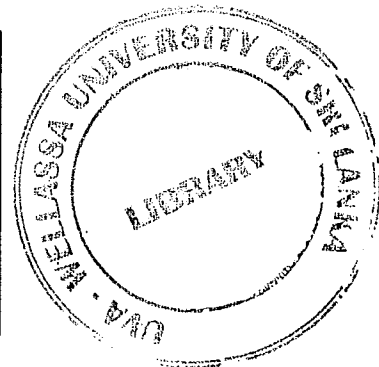
Calculate the landed cost per kg. of material A. (05 Marks)

- ii) Discuss the importance of considering overhead costs as a part of cost of a product or service in making decisions. (05 Marks)

- iii) Assume you are the Cost Accountant of a newly formed manufacturing company.

You have been provided the following estimated and the actual data for the year 2015.

Description	Estimated Data	Actual data
Indirect labour	Rs.30,000	Rs.31,000
Indirect material	Rs.32,000	Rs.40,000
Factory supervision	Rs.35,000	Rs.32,500



Inspection	Rs.34,000	Rs.31,750
Maintenance	Rs.40,000	Rs.41,250
Heat, light and power	Rs.34,000	Rs.38,000
Depreciation	Rs.55,000	Rs.60,000
Miscellaneous factory overhead	Rs.40,000	Rs.35,500
Direct labour hours	150,000	143,500

You are required to;

- a) Calculate the pre determine overhead rate and actual overhead rate based on direct labour hours. (05 Marks)
- b) Determine the under or over absorbed overhead cost for the period (05 Marks)

(Total Marks -20)

02. The following details are relevant to a manufacturing Company which produces three products A, B and C.

	A	B	C
Direct material cost per unit (Rs.20 per Kg)	140	120	190
Direct labour cost (at Rs.100 per hour)	400	300	500
Fixed overhead cost (Rs)	200	150	250
Variable overhead cost (Rs)	120	90	150
Unit selling price (Rs)	975	840	1,200
Monthly demand (in units)	800	600	600

200 units of good A and 100 units of good B are available in the stock for next month. The monthly availability of material and labour are limited to 9,500kgs and 7000 hours respectively. Further to satisfy the established customers demand 300 units of each product should be marketed.

You are required to;

- i) Identify the limiting factor

(04 Marks)

- ii) State the priority of production (06 Marks)
- iii) Determine the suitable product mix for the next month (05 Marks)
- iv) Determine the sales mix for the next month in order to maximize the profitability of the company (05 Marks)

(Total Marks - 20)

03.

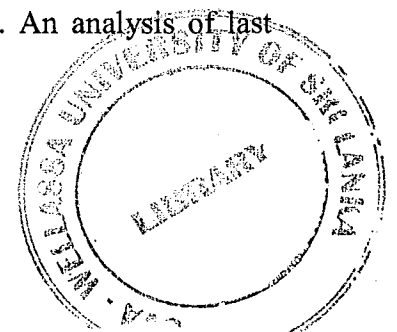
- i) "Among all other decisions made by the businesses the pricing decisions play a vital role". Elaborate. (05 Marks)
- ii) The weekly demand for good "Y" is 700 units at the price per unit is Rs.48.00. When price increases to Rs.78.00 the weekly demand will decrease to 400 units. Fixed cost per week amounts to Rs. 17,100 and variable cost per unit is Rs. 9.00

You are required to;

- a) Determine the profit maximizing unit price (04 Marks)
- b) Determine the quantity demanded at the profit maximizing price (04 Marks)
- c) Calculate the weekly profit (02 Marks)
- iii) A transfer price is the price at which goods and services are transferred between divisions in a same organization. Transfer pricing is used when divisions of an organization need to charge other divisions of the organization for the goods and services they provided to them. You are required to discuss the problems arising with transfer pricing. (05Marks)

(Total Marks – 20)

04. Swastik Ltd. manufacturers of special purpose machine tools, have two divisions which are periodically assisted by visiting teams of consultants. The management is worried about the steady increase of expense in this regard over the years. An analysis of last year's expenses reveals the;



	Rs.
Consultant's remuneration	250,000
Travel and Conveyance	150,000
Accommodation expenses	600,000
Boarding charges	200,000
Special Allowances	50,000
	1,250,000

The management estimates accommodation expenses to increase by Rs. 200,000 annually.

As part of a cost reduction drive, Swastik Ltd, is proposing to construct a consultancy center to take care of the accommodation requirements of the consultants. This center will additionally save the company Rs.50,000 in boarding charges and Rs. 200,000 in the cost of Executive Training Program hitherto conducted outside the company's premises every year.

The following details are available regarding the construction and maintenance of the new center:

- Land at cost of Rs. 800,000 already owned by the company, will be used
- Construction cost of consultancy Center is Rs. 1,500,000.
- Cost for special furnishing is Rs. 200,000.
- Cost of annual maintenance Rs. 150,000.
- Construction cost will be written off over 5 years being the useful life.

Assuming that the write-off construction cost as above mentioned will be accepted for tax purposes, that the rate of tax will be 50% and that the desired rate of return is 15%

The relevant present value factors are:

Year	1	2	3	4	5
PV Factor	0.87	0.76	0.66	0.57	0.50

You are required to;

- i) Find the project's initial net cash outlay (05 Marks)
- ii) Find the project's operating Net cash flows for each 5 years (07 Marks)
- iii) Evaluate the Project using NPV method and analyze the feasibility of the proposal and make recommendations. (08 Marks)

(Total Marks – 20)

