

**Uva Wellassa University**  
**Faculty of Management**

**Degree of Bachelor of Business Management in Hospitality, Tourism and Events  
Management**

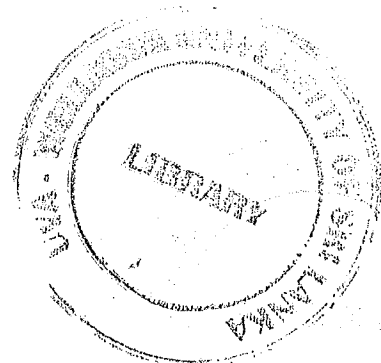


**SECOND YEAR SECOND SEMESTER EXAMINATION –AUGUST/SEPTEMBER 2011**  
**HTE 212 -2 Cost and Management Accounting**

**Instructions to candidates:**

No. of pages : Eight (08)  
No. of questions : Five (05) Structured Essay  
                          : Three (03) Essay  
Time allocation : One (01) Hour and Forty (40) Minutes  
Marks allocated : 85 Marks  
Question paper is not to be removed from examination hall.

Index Number:



### Part C – Essay Questions

Answer only two (02) questions from Part C including question no. 01

Show all workings very clearly. Any assumption should clearly be stated.

Marks allocation: 50 Marks

01)

- 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 extracted from the costing records of an engineering works in respect of job order number EW 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 EW 0020.

(6 marks)

- c) The following information is extracted from the books of Israss Manufacturers Ltd which produces a product through different processes.

The opening stock of working progress of a process is 5000 units. These units 100% completed in material and 40% completed in labour and overhead cost. The costs incurred in the opening working progress are as follows:

Raw Material	Rs.6,000.00
Labour	Rs.2,000.00
Overhead	Rs.3,240.00

39,000 total units have been completed during the period. The closing work in progress is 4000 units which are 100% completed in raw materials and 20% completed in labour and overhead costs. 38,000 units have been introduced to the process during the period with a cost of Direct Material Rs.30,000.00, Direct Labour Rs.22,500 and Overhead cost Rs.22,500.

**You are required to prepare;**

- i. Statement of equivalent production
  - ii. Statement of evaluation
  - iii. Process account
- (Use the FIFO method)

(20 marks)

(Total – 30 Marks)

02)

- a) Briefly discuss the importance of proper appraisal of proposed capital expenditure project

(2 marks)

- b) Why do projects should be accepted if there is a positive net present value?

(3 marks)

5 marks)



- c) The following data is 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

Following additional information is also available to you.

- Profit of each year has been calculated after deducting the depreciation under the straight line basis.
- 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)
- d) What is mean by a project breakeven point? (1 mark)
- e) A company has proposed to invest in a project. The details are as follows.  
Cost of the investment of the project is Rs.20 million and it is to be invested at the beginning of the year. The life time of the project is 5 years. Selling price of the product is expected to be Rs.1,000 and its variable cost is Rs.600. The annual fixed cost will be Rs.8 million.

**You are required to;**

Calculate the project breakeven point of the company.

(6 marks)

(Total – 20 Marks)

03)

a) "Profits are maximized at the point where the marginal cost is equals to the marginal revenue". Discuss this statement.

(5 marks)

b) There is a steady annual demand for 1,000 units of product X when the unit price is Rs.80. If the price increases to Rs.85 the demand falls to 750 units. The fixed cost of the company selling the product is Rs.25,000 and the variable cost per unit is Rs.40.

**You are required to;**

i) Derive the equation of the demand function that links price (P) to the quantity demanded (Q), assuming that it to be a linear one.

(3 marks)

ii) Calculate the quantity and price which will maximize the profit

(4 marks)

iii) Calculate the profit at the maximization level

(3 marks)

c) Anuradha PLC is about to launch a new product to the market.

**You are required to:**

Advice the company regarding setting the price of this product using the knowledge of pricing strategies for a new product.

(5 marks)

(Total – 20 Marks)

