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 2014

HTE 212 -2 Cost and Management Accounting

Instructions to candidates:

No. of pages : Seven (07)
No. of questions : Six (06) Essay
Time allocation : Two (02) Hours
Marks allocated : 100 Marks

Answer only 04 Questions

Show all the workings clearly. Calculators are permitted

Index Number:

01.

i) Define the following terms

a. Cost
b. Cost Unit
c. Cost Object
d. Cost Centre

(04 Marks)

ii) State the different types of Cost Centres.

(04 Marks)

iii) What is the purpose of ascertaining costs by Cost Centres?

(02 Marks)

iv) List down any five (05) advantages of cost accounting to management

(05 Marks)

v) Manufacturing cost of a product comprises with Direct Material Cost, Direct Labour Cost and Manufacturing Overhead Cost. Briefly describe the meaning of each type of costs with an example.

(10 Marks)

(Total – 25 Marks)

02.

i) The following information is extracted from the books of Badulusiri Bakers Private Limited for the month of July 2014.

Date	Description
02/07/2014	Purchased 400 Kgs of Wheat Flour at Rs.100 per Kg.
05/07/2014	Purchased 150 Kgs of Wheat Flour at Rs.110 per Kg.
07/07/2014	Issued 200 Kgs of Wheat Flour to the Production Department
13/07/2014	Purchased 200 Kgs of Wheat Flour at Rs. 105 per Kg.
15/07/2014	Issued 350 Kgs of Wheat Four to the Production Department
20/07/2014	Issued 100 Kgs of Wheat Flour to the Production Department
25/07/2014	Purchase 150 Kgs of Wheat Flour at Rs.120 per Kg.

The opening stock of Wheat Flour on 01/07/2014 was shown as 100Kgs valued at Rs.80 per Kg. The company policy is to issue materials based on **First In First Out (FIFO)** pricing technique.

You are required to calculate the value of;

a. Material consumed during the period.

(03 Marks)

b. Stock of Materials on 31/07/2014

(03 Marks)

ii) No cost accounting system becomes effective without proper and efficient control of material. Identify the objectives of material controlling.

(04 Marks)

iii) A manufacturer requires 800 units of a particular raw material per quarter to cater the demand. The unit cost of the raw material is Rs.6.00 and inventory holding charges per annum is 25% on cost and the ordering cost per order is Rs.150.00.

You are required to determine;

a. Economic Order Quantity (EOQ) (03 Marks)

b. Number of orders per annum (02 Marks)

c. Time between two consecutive orders (02 Marks)

iv) Nourishing Food Dealers PLC is having four departments, A, B, C and D. The actual overhead costs of the company for the month of June 2014 were given below.

Description	Amount (Rs.)
Depreciation	18,000
Rent	36,000
Repair expenses	13,500
Electricity	12,000
Insurance	15,000
Employers contribution to EPF	32,000
Supervision	6,000

The following data are also available in respect of 4 departments.

Basis of apportionment	Department			
	A	B	C	D
Areas (Square feet)	150	110	90	50
No.of workers	24	16	12	8
Total wages (Rs.)	160,000	120,000	80,000	40,000
Value of plant (Rs.)	24,000	18,000	12,000	6,000
Value of stock (Rs.)	15,000	9,000	6,000	0

You are required to;

Prepare a statement showing apportionment of overhead costs to four departments.

(08 Marks)

(Total – 25 Marks)

03. A manufacturing company produces and sells three types of products X, Y and Z. Budgeted variable cost per unit, selling price and quantity demand for next month are as follows.

Particulars	X	Y	Z
Budgeted quantity demand	550 units	500 units	400 units
Unit selling price	Rs.160	Rs.180	Rs.140
Variable Costs	Rs.120	Rs. 120	Rs.110

The company has existing stock of 200 units of X and 200 units of Y which could be used to satisfy the expected demand.

All three products use the same direct material and the same type of direct labour. The material and labour consumption per unit of each product are given below.

Particulars	**X**	**Y**	**Z**
Material (Kg)	4	3	1
Labour Time (Minutes)	2	3	4

The availability of material for the budgeted period will be restricted to 2,400 Kgs and supply of labour will be restricted to 70 hours.

You are required to;

i) Determine the limiting factor

(06 Marks)

ii) Calculate the contribution per unit

(03 Marks)

iii) Calculate the contribution per limiting factor

(03 Marks)

iv) Indicate the priorities for product X, Y and Z with a view of profit maximization

(03 Marks)

v) Determine the **product mix** and **sales mix** that would maximize the profits of the company in the next month.

(10 Marks)

(Total – 25 Marks)

04.

i) Briefly explain the meaning of process loses and gains

(4 Marks)

ii) Citizen PLC produces a product using three distinct processes. The output of one process becomes the input of next process until completion. The following cost information is available for this operation.

Particulars	Total (Rs.'000)	Process I (Rs.'000)	Process II (Rs.'000)	Process III (Rs.'000)
Materials	5,625	2,600	2,000	1,025
Direct Wages	7,330	2250	3,680	1400
Production overhead	7,330			

500 units at Rs.4,000 per unit were introduced in process I. Production overheads are absorbed as a percentage of direct wages.

The actual output and normal loss of the respective processes are:

Particulars	**Output units**	**Normal loss on input**	**Value of scrap per unit (Rs)**
Process I	450	10%	2,000
Process II	340	20%	4,000
Process III	270	25%	5,000

There is no stock or work-in-progress in any process.

You are required to prepare;

i. The three (03) process accounts (12 Marks)

ii. The normal loss account (04 Marks)

iii. The abnormal loss and abnormal gain account (05 Marks)

(Total - 25 Marks)

05.

i) ABC Ltd. believes that demand for its product can be represented by P = 10-0.003Q, where P is the unit Price in Rupees and Q is the quantity of sales. The total cost function is (in Rs.) $C= 1,000 + 3Q + 0.004Q^2$.

You are required to calculate;

a. The level of output and the unit price at which profit will be maximized.

(06 Marks)

b. The profit at the optimum output level

(04 Marks)

ii) Identify the problems of using optimum pricing technique in determining a product price.

(05 Marks)

iii) Modern PLC is about to launch a new product to the market. The company seeks your advice on setting the price of this product. Using the knowledge of pricing strategies for a new product you are required to advise the company in setting the price for proposed product.

(10 Marks)

(Total – 25 Marks)

06. ABC PLC has decided to purchase a food processing machine to augment the company's capacity to meet the increasing demand for their products. There are three machines under consideration of the management. The initial investment cost of each machine is Rs.350,000. The estimated annual sales revenue and the relevant cost of each machine are given below.

Description	**Machine I (Rs.)**	**Machine II (Rs.)**	**Machine III (Rs.)**
Estimated annual sales revenue	550,000	430,000	495,000
Estimated cost of production			
Direct Material	130,000	90,000	110,000
Direct Labour	150,000	100,000	120,000
Factory overhead	60,000	60,000	60,000

The economic useful life of machine I and III are three (03) years and machine II is four (04) years. The company's cost of capital is 12%.

You are required to;

i) Calculate the payback period of each machine and state which machine you would recommend to purchase based on payback period method.

(08 Marks)

ii) Calculate the Net Present Value (NPV) of each machine and state your recommendation based on NPV technique.

(14 Marks)

iii) Give your final recommendation to the company on which machine to be purchased.

(03 Marks)

(Total – 25 Marks)

15