

Uva Wellassa University

Faculty of Management



Degree of Bachelor of Business Management in Entrepreneurship and Management

THIRD YEAR FIRST SEMESTER EXAMINATION –MAY/JULY 2017

EMG 311 -3 Cost and Management Accounting

Instructions to candidates:

No. of pages : Five (05)
No. of questions : Six (06) Essay
Time : Three (03) hours
Marks allocated : 100 Marks
Answer all questions

Index No:

01.

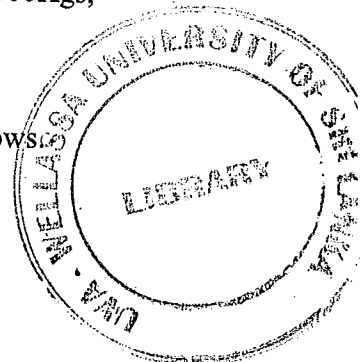
- i) List five (05) advantages of Cost Accounting to management (05 Marks)
- ii) State the meaning of the terms, "Cost", "Cost Unit" and "Cost Centre" (06 Marks)
- iii) Manufacturing cost of a product comprises with Direct Material Cost, Direct Labour Cost and Manufacturing Overhead Cost. Briefly describe the meaning of each type of costs mentioned in the above statement. Your answer should include examples for each type of costs. (09 Marks)

(Total Marks -20)

02.

- i) Distinguish Centralized Purchasing from Decentralized Purchasing (04 Marks)
- ii) Laksiru Private Limited is producing and selling food items. The following information is extracted from the books of Laksiru Private Limited for the month of April 2017.

- The opening stock of Wheat Flour on 01/04/2017 was shown as 100Kgs, valued at Rs.100 per Kg.
- The purchases and issues during the month of April 2017 are as follows.



| Date | Description |
|------------|---|
| 02/04/2017 | Purchased 200 Kgs of Wheat Flour at Rs.110 per Kg. |
| 06/04/2017 | Purchased 300 Kgs of Wheat Flour at Rs.100 per Kg. |
| 09/04/2017 | Issued 250 Kgs of Wheat Flour to the Production Department |
| 12/04/2017 | Purchased 500 Kgs of Wheat Flour at Rs. 130 per Kg. |
| 14/04/2017 | Issued 350 Kgs of Wheat Flour to the Production Department |
| 20/04/2017 | Issued 250 Kgs of Wheat Flour to the Production Department |
| 20/04/2017 | Purchase 300 Kgs of Wheat Flour at Rs.140 per Kg. |
| 25/04/2017 | Issued 300 Kgs of Wheat Flour to the Production Department. |

The company policy is to price the issuing of materials based on **First In First Out (FIFO) method.**

You are required to prepare the Stores Ledger Account showing the material purchases, issues and the balance. (06 Marks)

iii) List any three (03) possible reasons for discrepancy between physical stock and stock shown in records and state the steps to be taken to avoid such discrepancies.

(05 Marks)

(Total Marks - 15)

03. 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)

04.

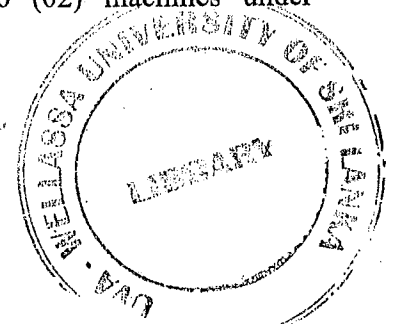
- i) Among all other decisions made by the businesses, the pricing decisions play a vital role. Elaborate. (05 Marks)
- ii) The weekly demand for good "Y" is 700 units and the price per unit is Rs.48.00. When price increase to Rs.78.00 the weekly demand will decrease to 400 units. Fixed cost per week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

(Total Marks - 15)

05. ABC PLC has decided to purchase a new machine to augment the company's capacity to meet the increasing demand for their products. There two (02) machines under



consideration of the management. The initial investment cost of each machine is Rs.500,000. The estimated annual profits of each machine are given below.

| Year | Machine I (Rs.) | Machine II (Rs.) |
|------|-----------------|------------------|
| 1 | 100,000 | 100,000 |
| 2 | 100,000 | 100,000 |
| 3 | 130,000 | 130,000 |
| 4 | 250,000 | 250,000 |
| 5 | 150,000 | 300,000 |

The salvage value of the machine I at the end of the use full life will be Rs.100,000 and the machine II will be zero. The company's cost of capital is 12%. Ignore taxation

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. (04 Marks)
- ii) calculate the Net Present Value (NPV) of each machine and state your recommendation based on NPV technique. (06 Marks)
- iii) give your final recommendation to the company on which machine to be purchased and justify your answer. (05 Marks)

(Total Marks -15)

06.

- i) Standard costs are predetermined costs. They are target costs that should be incurred under efficient operating conditions. List four (04) uses of standard costing information for business decisions. (04 Marks)

ii) The following information is relevant to product X.

Standard direct material cost per unit is (2 Kgs of material at Rs.50 per kg) Rs.100.

During the period 5,000 units of product X were manufactured using 11,750 kgs. The actual cost of material for 11,750 Kgs was Rs.99,875.00.

You are required to calculate following direct material cost variances.

a. Total variance (02 Marks)

b. Price variance (02 Marks)

c. Usage variance. (02 Marks)

iii) Discuss the importance of variance analysis in decision making (05 Marks)

(Total Marks -15)

