



Uva Wellassa University

Faculty of Management



Degree of Bachelor of Business Management in Entrepreneurship and Management

3rd YEAR 1st SEMESTER EXAMINATION – FEBRUARY/MARCH 2012

EMG 311 -3 Cost and Management Accounting

Part C- Essay Questions

Part C contains three (03) questions.

Answer only two (02) questions

Marks allocated for part C is Fifty (50)

Show all workings very clearly

01.

a) What is meant by direct material cost variance and state the reasons for arising material cost variance?

(3 marks)

b) What does it mean if the direct material yield variance is adverse?

(2 marks)

c) Standard products limited is a manufacturing company who produces product "Z" using two types of raw materials, type X and type Y. The standard material cost of one unit of product "Z" is given below.

Material type X 3Kgs at Rs.200 per Kg Rs. 600

Material type Y 5Kgs at Rs.300 per Kg Rs. 1,800

Total standard material cost per unit of "Z" Rs. 2,400

During the period 2,200 Kgs of Material type X costing Rs.410,000 and 2,400Kgs of material type Y costing Rs.960,000 were used to produce 500 units of product "Z".

You are required to calculate:

- i. Direct material cost variance
- ii. Direct material price variance
- iii. Direct material usage variance
- iv. Direct material mix variance
- v. Direct material yield variance



02. Lucky Leather Ltd. Produces and sells three types of products P,Q and R. Budgeted variable cost per unit, selling price and quantity demand for next year are as follows.

Particulars	P	Q	R
Budgeted quantity demand	550 units	500 units	400 units
Unit selling price	Rs.16	Rs.18	Rs.14
Variable Costs:			
Material(Rs.2 per kg)	Rs.8	Rs.6	Rs.2
Labour (Rs.2 per minute)	Rs.4	Rs.6	Rs.9

The company has existing stock of 250 units of P and 200 units of R 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 availability of material will be restricted to 2,400 Kgs and supply of labour will be restricted to 55 hours for the budgeted period.

You are required to:

Determine what product mix and sales mix would maximize the profits of Lucky Leather Ltd. in the next year.

(25 marks)

03.

- a) Briefly describe three problems relating to transfer pricing

(9 Marks)

- b) A company has two profit centres, profit centre A and profit centre B. Profit center A produces 1200 units of a product per annum at their maximum capacity. Maximum demand from external market for the products of profit centre A limited to 800 units per annum but sell only 1/3 of its output in the open market because the company regulations required profit centre a to transfer 2/3 of the output to profit centre B which also faces limited demand.

Costs of production and market selling prices are given below.

	Profit center A	Profit center B
Quantity produced	1200	
Cost per unit (in Rupees):		
Direct material cost	5	7
Direct Labour cost	4	5
Other direct costs	3	4
Fixed cost	6	10
External market selling price per unit (in Rupees)	25	60

You are required to:

Explain the consequences of setting a transfer price at full cost plus 25% margin. Support your answer with necessary calculations.

(16 marks)

(Total 25 Marks)

