

# Uva Wellassa University

Faculty of Management



Degree of Bachelor of Business Management in Entrepreneurship and Management

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

**SECOND YEAR FIRST SEMESTER EXAMINATION –DECEMBER/JANUARY 2017**

**ENM 223 -3 / HTE 272 -3 Cost and Management Accounting**

**Instructions to candidates:**

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

Index No:

Answer **all** questions

The question paper is not to be removed out from the examination hall.

01.

i) Cost Accounting is a system developed for internal purpose as an aid to managerial decision making. Discuss. (05 Marks)

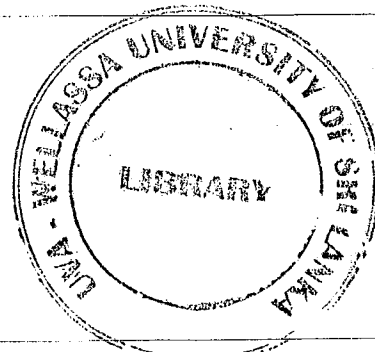
ii) “Manufacturing cost of a product comprises with Direct Material Cost, Direct Labour Cost and Manufacturing Overhead Cost”.

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)

iii) “The direct costs are easily attributable to cost objects. However 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. (06 Marks)

(Total Marks -20)



2.

- i) Accounting treatment for the 'normal idle time' is different from the 'abnormal idle time'. State the accounting treatment for normal and abnormal idle times and justify the appropriateness of such different accounting treatments. (05 Marks)
- ii) "Overtime should be discouraged". Do you agree with this statement? Justify your answer in terms of to Cost Management. (05 Marks)
- iii) The following information is relevant to a particular job done by a worker.

Hourly wage rate      Rs.600  
Time allowed            60 hours  
Time actually taken    40 hours

You are required to calculate the wages of the worker using following bonus schemes.

- a) Rowan Premium Bonus Plan (02 Marks)  
b) Halsey Premium Bonus Plan (02 Marks)  
c) Halsey Weir Bonus Plan (02 Marks)

(Total Marks-16)

3. Uva Hotels PLC has three (03) production departments and two (02) service departments.

Expenses incurred in these departments and other available information are given below.

Expenses	Production Departments			Service Departments	
	Kitchen I	Kitchen II	Bakery	Human Resource	Finance
Direct Material Cost	150,000	200,000	100,000	5,000	5,000
Direct labour Cost	100,000	50,000	50,000	10,000	5,000
Total departmental Overhead Costs (Rs.)	100,000	150,000	140,000	30,000	10,000



Selling price per unit	Rs.400
Closing inventory requirement	1870 units
Beginning inventory	170 units

➤ Estimated direct material inventories:

	Material X	Material Y
Closing inventory required (units)	10200	1700
Beginning inventory (units)	8500	8000

➤ Budgeted cash flows (in Rupees) are as follows:

Description	Quarter 01	Quarter	Quarter 03	Quarter
	(Rs.)	02 (Rs.)	(Rs.)	04 (Rs.)
Receipts from customers	1,000,000	1,200,000	1,120,000	985,000
Payments for the materials	400,000	480,000	440,000	547,984
Payments for the wages	400,000	440,000	480,000	646,188
Other costs and expenses	120,000	100,000	72,016	13,642

You are required to prepare the following budgets for the year 2017.

- i) Sales budget (02 Marks)
- ii) Production budget (02 Marks)
- iii) Direct material usage budget (03 Marks)
- iv) Direct material purchase budget (03 Marks)
- v) Direct labor budget (03 Marks)
- vi) Cash budget (03 Marks)

(Total Marks-16)

5. The following information is extracted from the books of ABC Company a manufacturer of product A.

Selling price per unit	Rs.300
Variable cost per unit	Rs.180
Fixed cost	Rs.4,500,000

You are required to;

- i) calculate the break-even point in units (02 Marks)
- ii) calculate break-even point in Rupees (02 Marks)
- iii) calculate profit volume ratio (02 Marks)
- iv) calculate the profit at the level of 50,000 units of production (02 Marks)
- v) calculate the level of production required to earn Rs.240,000 profit (02 Marks)
- vi) construct a break-even chart and show the break-even point, profit making area and the loss making area graphically. (06 Marks)

(Total Marks-16)

6. 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 two (02) machines under consideration of the management. The initial investment cost of each machine is Rs.500,000. The estimated profits of each machine are given below.

Year	Machine I (Rs.)	Machine II (Rs.)
1	100,000	100,000
2	110,000	100,000
3	260,000	190,000
4	200,000	250,000
5	220,000	300,000



The economic useful lives of the both machines are five (05) years. The profits of each machine have been calculated after charging the depreciation on strait line basis.

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. (06 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. (04 Marks)

(Total Marks- 16)