Uva Wellassa University

Faculty of Management

Degree of Bachelor of Business Management and Entrepreneurship

Year 3 Semester I Examination - December 2008

EMG 311-3 Cost & Management Accounting

Index No.

Time : 2 hours and forty minutes (2.40 hours)
Total marks : 80

Part B

Total marks for part B: 30 marks

You have to answer all questions

1. A Ltd employs 10 full-time professionals. The budgeted compensation per employee is USD 125,000. The annual maximum chargeable time to each client is 1,250 hours. Clients always receive their full amount of time. All professional labour costs are included in a single direct-cost category and are traced to jobs on a per-hour basis. Any other costs are included in a single indirect cost category. Indirect costs for the year are budgeted at USD 1,500,000 and the firm expects to have 20 clients during the coming year. A partner spent 500 hours on Client X during the year.

I. What is the budgeted unit direct- cost rate for professional labor?
II. What is the budgeted unit indirect allocation rate per professional labour hour?
III. What is the amount of cost charged to client X for the year?

(6 marks)

2. B Ltd. manufactures hard drives for computers. Manufacturing overhead is allocated based on machine hours. In 2007 the company budgeted for 50,000 machine hours. The budgeted manufacturing overhead for the year was USD 400,000. The direct costs incurred by the manufacturing facility for Job 666 are shown below.

Cost Item	Total cost (USD)
Raw materials used	25,000
Direct manufacturing labor	30,000

Job 666 incurred 700 machine hours during its production.

I. What is the budgeted manufacturing overhead rate for the year?
II. What is the total cost of Job 666?

(6 marks)

3. Q Ltd. practices Activity-based Costing system. It manufactures two products.

	Product A	**Product B**
Budgeted annual production (units)	200,000	200,000
Batch size (units)	200	100
Equipment set-ups per batch	7	8

The budgeted equipment set-up cost for the year ending 31 December 2008 is USD 300,000.

I. Calculate the annual budgeted number of:

   a) Batches

   b) Equipment set-ups

II. Calculate the budgeted equipment set-up cost for Product B for 2008.

(6 marks)

4. Z plc makes two products, L and M. Its machines can only work on one product at a time. The two products are worked on in two departments by differing grades of labor. The labor requirements for the two products are as follows:

	Minutes per unit of product	
	L	*M*
Department 1	12	16
Department 2	20	15

There is, currently, a shortage of labor and the maximum times available each day in Departments 1 and 2 are 480 minutes and 840 minutes, respectively.
The current selling prices and costs for the two products are shown below:

	L	*M*
	USD per unit	*USD per unit*
Selling price	50.00	65.00
Direct materials	10.00	15.00
Direct labor	10.40	6.20
Variable overheads	6.40	9.20
Fixed overheads	12.80	18.40
Profit per unit	10.40	16.20

As part of the budget-setting process, Z plc needs to know the optimum output levels. Assume all output is sold.

I. Calculate the maximum number of each product that could be produced each day, and identify the limiting factor/bottleneck

II. Using contribution analysis, calculate the "profit-maximizing" daily output, and the contribution at this level of output.

(6 marks)

5. A general insurance company is about to implement a Balance scorecard. You are required to

I. State the four perspectives of a Balanced Scorecard: and

II. Recommended one performance measure that would be appropriate for a general insurance company, for each of the four perspectives. (You have to recommended one measure only for each perspective)

(6 marks)

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Part C

Total Marks for part C : 50 Marks

You have to answer 2 questions only

1. X plc manufactures remote control devices for sale to distributors at USD 60 each. The cost per remote control is shown in the table below. The fixed cost per unit is based on a normal capacity of 24,000 units per year.

Direct materials	USD 10
Direct labor	USD 15
Manufacturing overhead (75% variable 25% fixed)	USD 10
Seling and administrative costs (30% variable and 70% fixed)	USD 15

X plc has received a special order from a large electronics manufacturer for 1,000 remote control units at USD 40 each. The control would require X plc to include the electronics company's brand on each remote unit. The only selling and administrative costs that would be incurred on this order would be USD 2 per unit for shipping. X plc expects to sell 20,000 units through regular channels next year and the existing customers would have no knowledge of this sale if it were accepted.

I. What is the amount of costs that are not relevant to this decision?

(6 marks)

II. What is the minimum price that the company should accept for this officer?

(12 marks)

III. In setting the price for a special order to be manufactured in the operating cycle, what are the other factors that should be considered?

(7 marks)

2. "Costing systems aim to explain how products consume resources but do not reveal the joint benefit of having multiple products"

I. Briefly describe the costing methods, (5 marks)

and discuss:

II. How the addition of a new product to the product range may affect the "cost " of existing products:

(12 marks)

III. The consequences, in terms of total profitability, of decisions to increase/decrease the product range

(8marks)