

Uva Wellassa University

Faculty of Management



Degree of Bachelor of Business Management in Entrepreneurship and Management

THIRD YEAR FIRST SEMESTER EXAMINATION – JULY/AUGUST 2016

EMG 311 -3 Cost and Management Accounting



Part B- Essay Questions

Answer any three questions from part B.

Marks allocation for part B is 60.

01.

- i) The following details are available in respect of a consignment of 2000 kgs of material A.

Invoice price	Rs.200 per kg
Excise duty	Rs.25% on invoice price
Trade discount	10% on invoice price
Insurance	1.5% of aggregate net price
Delivery charges	Rs.1,500
Cost of containers	Rs.100 per container

50kgs of material can be stored in one container. If the empty containers were returned back within three (03) weeks, a rebate is allowed at Rs.60 per container. Two container load of material was rejected on inspection due to damage goods.

Calculate the landed cost per kg. of material A. (05 Marks)

- ii) Discuss the importance of considering overhead costs as a part of cost of a product or service in making decisions. (05 Marks)

- iii) Assume you are the Cost Accountant of a newly formed manufacturing company.

You have been provided the following estimated and the actual data for the year 2015.

Description	Estimated Data	Actual data
Indirect labour	Rs.30,000	Rs.31,000
Indirect material	Rs.32,000	Rs.40,000
Factory supervision	Rs.35,000	Rs.32,500

Inspection	Rs.34,000	Rs.31,750
Maintenance	Rs.40,000	Rs.41,250
Heat, light and power	Rs.34,000	Rs.38,000
Depreciation	Rs.55,000	Rs.60,000
Miscellaneous factory overhead	Rs.40,000	Rs.35,500
Direct labour hours	150,000	143,500

You are required to;

- a) Calculate the pre determine overhead rate and actual overhead rate based on direct labour hours. (05 Marks)
- b) Determine the under or over absorbed overhead cost for the period (05 Marks)

(Total Marks -20)

02. 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

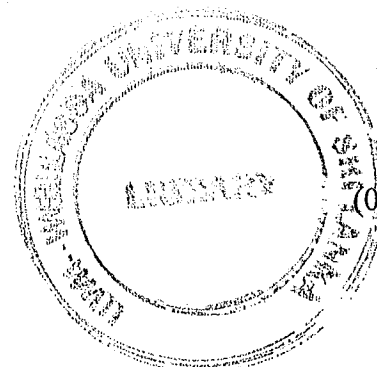
200 units of good A and 100 units of good B are available in the stock for next month.

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)

03.

- 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 at the price per unit is Rs.48.00. When price increases to Rs.78.00 the weekly demand will decrease to 400 units. Fixed cost per week amounts to 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)
- iii) A transfer price is the price at which goods and services are transferred between divisions in a same organization. Transfer pricing is used when divisions of an organization need to charge other divisions of the organization for the goods and services they provided to them. You are required to discuss the problems arising with transfer pricing. (05Marks)

(Total Marks – 20)

04. Swastik Ltd. manufacturers of special purpose machine tools, have two divisions which are periodically assisted by visiting teams of consultants. The management is worried about the steady increase of expense in this regard over the years. An analysis of last year's expenses reveals the;

	Rs.
Consultant's remuneration	250,000
Travel and Conveyance	150,000
Accommodation expenses	600,000
Boarding charges	200,000
Special Allowances	50,000
	1,250,000

The management estimates accommodation expenses to increase by Rs. 200,000 annually.

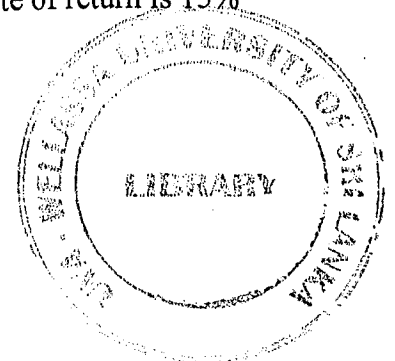
As part of a cost reduction drive, Swastik Ltd, is proposing to construct a consultancy center to take care of the accommodation requirements of the consultants. This center will additionally save the company Rs.50,000 in boarding charges and Rs. 200,000 in the cost of Executive Training Program hitherto conducted outside the company's premises every year.

The following details are available regarding the construction and maintenance of the new center:

- Land at cost of Rs. 800,000 already owned by the company, will be used
- Construction cost of consultancy Center is Rs. 1,500,000.
- Cost for special furnishing is Rs. 200,000.
- Cost of annual maintenance Rs. 150,000.
- Construction cost will be written off over 5 years being the useful life.

Assuming that the write-off construction cost as above mentioned will be accepted for tax purposes, that the rate of tax will be 50% and that the desired rate of return is 15%

The relevant present value factors are:



Year	1	2	3	4	5
PV Factor	0.87	0.76	0.66	0.57	0.50

You are required to;

- i) Find the project's initial net cash outlay (05 Marks)
- ii) Find the project's operating Net cash flows for each 5 years (07 Marks)
- iii) Evaluate the Project using NPV method and analyze the feasibility of the proposal and make recommendations. (08 Marks)

(Total Marks – 20)