

2015

Part C- Essay Questions

Answer only two (02) questions from part C

Marks allocated for part C : 50 Marks

01.

- i) List five (05) material cost controlling techniques. (05 Marks)
- ii) A well-established Hotel Sector organization uses ingredient 'A' as the major ingredient of one of their highly demanded food items. The cost of the Material is Rs.200 per Kg and the input-output ratio is 120%. Due to a sudden shortage in the market, the material 'A' becomes non-available and the business is considering to use one of the following substitutes available.

Material	Input-Output ratio	Rs. Per Kg
B1	140%	260
B2	115%	300
B3	120%	295

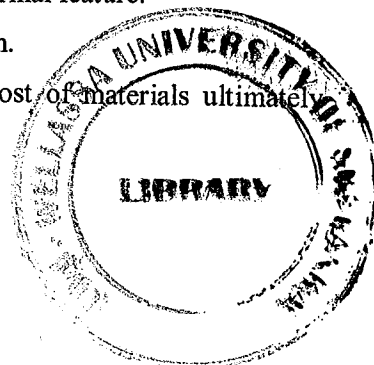
You are required to:

- a) Recommend which of the above substitutes is to be used. (09 Marks)
 - b) Indicate the additional cost required to be incurred. (03 Marks)
- iii) The following details are available in respect of a consignment of 1,250 Kgs of Material X.

- Invoice price : Rs.200 per Kg
- Excise Duty : 25% on Invoice price
- Sales tax : 8% of invoice price including excise duty
- Trade discount : 10% on invoice price
- Insurance : 2% of aggregate net price
- Delivery Charges : Rs.2,500
- Cost of containers : Rs.60 per container. 50Kgs of material can be stored in one container. Rebate is allowed at Rs.40 per container if returned within six (06) weeks, which is a normal feature.

One container load of material was rejected on inspection.

Cost of unloading and handling is at 0.25% of the cost of materials ultimately accepted.



You are required to;

Find out the landed cost of one (01) Kg of material X, based on the information given above.

(08 Marks)

(Total Marks -25)

02. The product of a company passes through two (02) distinct processes to completion. The output of process A is transferring to the process B as input. Process B is the final stage of production and the resulting output is transferring to the finished good stock.

The normal wastage of each process is given below.

Process	Wastage	Sale value of wastage
A	2%	Rs.10 per unit
B	4%	Rs.15 per unit

The expenses of each process are as follows.

Particulars	Process A (Rs)	Process B (Rs)
Materials	25,000	-
Direct Labour	20,000	15,000
Manufacturing expenses	5,500	4,700
Other factory overhead	7,500	3,092

4,000 units were initially introduced in process A at a cost of Rs.80,000. The output of each process was as follows.

Process	Output
A	3,850 units
B	3,600 units

You are required to:

- i) Prepare the two process accounts (12 Marks)
- ii) Normal wastage account (04 Marks)
- iii) Abnormal wastage account (04 Marks)
- iv) Calculate the selling price per unit of finished stock so as to realize 20% profit on selling price. (05 Marks)

(Total Marks - 25)

03. ABC PLC is considering to manufacture a new product which would involve the use of two machines, one new machine and one existing machine in the business. The purchase price of the new machine will be Rs.200,000. The existing machine was purchased two year ago for Rs.180,000. The current net book value of this machine is Rs.108,000. There is sufficient capacity on this existing machin, which has so far been under-utilized. Annual sales of the project would be 8,000 units at Rs.45 per unit. The estimated production cost per unit is as follows.

Cost Item	Rs
Direct material	13
Direct Labour	10
Variable overhead cost	05
Incremental fixed cost per unit	02

The project would have a five-years life, after five years the new machine would have a net residual value of Rs.10,000. The direct labour is continually in short supply. Hence, labour resources would have to be diverted from other work which currently earns a contribution of Rs.5 per direct labour hour.

Working capital requirements would be Rs.10, 000 in the first year, rising to Rs.15,000 in the second year and remaining at this level until the end of the project. the total working capital will be recovered at the end of the useful life of this project. The company's cost of capital is 20%.

You are required to assess whether the project is worthwhile. (Ignore taxation.)

(25 Marks)

