



# SOUTH EASTERN UNIVERSITY OF SRI LANKA

091

## SECOND YEAR EXAMINATIONS IN BACHELOR OF BUSINESS ADMINISTRATION / COMMERCE (EXTERNAL) - 2008 / 2009 HELD IN AUGUST - 2009

### BBA / COM 28 (I) – COST AND MANAGEMENT ACCOUNTING - I

Answer all Questions. Graph Paper will be provided

Time: 03 Hours

01. (a) Select the most appropriate answer and write the corresponding alphabet in your answer sheet.

i. \_\_\_\_\_ is part of an organization's management information system for internal use only.

- a. Financial accounting
- b. Management accounting
- c. Governmental accounting
- d. Not-for-profit accounting
- e. External auditing

ii. Which of the following statements about the management accounting is true?

1. It is a part of an organization's management information system.
2. It is relied upon by managers to plan and control the organization's operations.
3. It is relied upon by external users to make investment decisions.
  - a. 1 and 2
  - b. 1, 2 and 3
  - c. 3
  - d. 2
  - e. 1

iii. Refer to the following data.

	Rs.
Direct material used	150,000
Selling cost	5,000
Indirect labour	7,000
Administrative costs	10,000
Depreciation on factory equipment	70,000
Direct labour	40,000
Overtime wage paid	20,000
Indirect material	45,000

The conversion costs are

- a. Rs. 40,000
  - b. Rs. 150,000
  - c. Rs. 142,000
  - d. Rs. 182,000
  - e. Rs. 190,000
- iv. Which of the following are components of the conversion costs?
- a. Direct material and direct labour
  - b. Indirect material and manufacturing overheads
  - c. Direct labour and manufacturing overheads
  - d. Direct material and manufacturing overheads
  - e. Direct labour and indirect labour
- v. The determination of cost behavior is called:
- a. Cost estimation
  - b. Cost prediction
  - c. Cost behaviour
  - d. Cost functions
  - e. Cost activity
- vi. Which of the following statements is true?
- a. Job costing traces costs to departments and process costing traces costs to products.
  - b. Job costing develops cost of products and process develops costs to processes.
  - c. Both job and process costing develop the cost of products.
  - d. Both job and process costing are concerned with the cost departments.
  - e. Work in process is only used in process costing.
- vii. Which of the following is a key document in a typical process costing system?
- a. Departmental Production Report
  - b. Master Schedule
  - c. Production Budget
  - d. Sequential Production Report
  - e. Material Requirements Reports.
- viii. Service costs include;
- 1. Design
  - 2. Production
  - 3. Purchase
- a. 2 and 3
  - b. 1 and 3
  - c. 1 and 2
  - d. 1
  - e. None of the above.

- ix. The concept of cost volume profit analysis is based on classifying costs as:
- Fixed and variable costs
  - Variable products and period costs
  - Product controllable and uncontrollable costs
  - Both a and b
  - Both a and c
- x. The break even point is the level of activity where:
- Total revenue equals total costs
  - Total revenue equals fixed costs
  - Total revenue equals variable costs
  - Total revenue equals product costs
  - C or d.
- xi. Which of the following item is NOT an assumption of CVP analysis?
- Cost may be separated into fixed and variable components
  - Total revenue and total costs are linear in relation to output units
  - Unit selling price, unit variable costs, and unit fixed costs are known and remain constant
  - Proportion of different products will remain constant when multiple products are sold
  - Total fixed cost remains constant.
- xii. KKL Ltd. sells a single product. 7,000 units were sold resulting 70,000 of sales revenue, 28,000 of variable costs, and 12,000 of fixed costs. Contribution margin per unit is;
- 4.00
  - 4.29
  - 6.00
  - 6.29
  - None of these answers are correct.

(12 marks)

- (b) Neptune Company currently purchases 1,500 units of material Alpha at a time and makes 8 orders a year. It is reviewing its stock policy and has considered the following alternatives for re-order quantity of material Alpha.

- Purchase 1,000 units at a time
- Purchase 2,000 units at a time
- Purchase 2,400 units at a time

It is ascertained that the purchase price per unit is Rs.10 for deliveries up to 1,000 units. A 5% discount is offered by the supplier on the whole order where



deliveries are from 1,001 up to 2,000 units, and 10% reduction on the total order for deliveries in excess of 2,000 units. Each purchase order incurs administration costs of Rs. 50. Storage, interest on capital and other holding costs are Rs. 3 per unit of average stock quantity held.

**REQUIRED:**

Advise management on the optimum order size amongst the alternatives.

(8 marks)

(Total 20 marks)

02. (a) Briefly explain the following terms used in process costing.

- i. Normal losses
- ii. Abnormal losses
- iii. Normal gain
- iv. Abnormal gain

(8 marks)

(b) A product is completed in two processes A and B. During a particular month, the input to process A of the basic raw material was 5000 units at Rs. 2/- per unit. Other information for the month is as follows.

Particulars	Process - A	Process - B
Output (Units)	4,700	4,300
Normal Loss (% of input)	5	10
Scrape Value per unit (Rs.)	5	5
Direct Wages (Rs.)	3,000	5,000
Direct Expenses (Rs.)	9,750	9,910

Total overheads percentage of direct wages Rs. 16,000 was recovered as percentage of direct wages.

There were no opening or closing work in progress stocks.

Prepare Process A and Process – B Accounts and other necessary accounts.

(12 Marks)

(Total 20 Marks)

03. Alex sells car batteries to service stations for an average of Rs. 30 each. The variable cost of each battery is Rs. 20 and monthly fixed manufacturing costs total Rs. 10,000.

You are required to;

- i. What is the break even point in batteries?
- ii. What is the margin of safety, assuming sales total Rs. 60,000?
- iii. What is the break even level in batteries, assuming variable costs increased by 20%?
- iv. What is the break even level in batteries, assuming sales level goes up by 10% and the fixed manufacturing costs decline by 10%?
- v. Draw the break even chart using the initial information in a graph paper.

(20 Marks)

04. The existing Incentive system of Alpha Limited is as under:

Normal working week	: 5 days of 8 hours each plus 3 late shifts of 3 hours each
Rate of Payment Day work	: Rs. 160 per hour
Late shift	: Rs. 225 per hour
Average output per operator for 49-hours week i.e. including 3 late shifts	: 120 articles

In order to increase output and eliminate overtime, it was decided to switch on to a system of payment by results. The following Information is obtained:

Time-rate (as usual)	: Rs. 160 per hour
Basic time allowed for 15 articles	: 5 hours
Piece-work rate	: Add 20% to basic piece-rate
Premium Bonus	: Add 50% to time.

Required:

- (i) Prepare a Statement showing hours worked, weekly earnings, number of articles produced and labour cost per article for one operator under the following systems:
  - (a) Existing time-rate
  - (b) Straight piece-work
  - (c) Rowan system
  - (d) Halsey premium system

Assume that 135 articles are produced in a 40-hour week under straight piece work, Rowan Premium system, and Halsey premium system above and worker earns half the time saved under Halsey premium system.

(5×4 = 20 Marks)

05. Alloy instrument Pvt. Ltd manufactures gauges for motor vehicle dash boards. The company has two production departments, Modeling and Assembly. There are three service departments, Maintenance, Personnel and Engineering. The usage of these service departments' output during 2008 presented below.

Provision of Service output in 2008 (in hours of service)			
User of Service	Provider of Service		
	Personnel	Maintenance	Engineering
Personnel			
Maintenance	250		
Engineering	250	250	
Modeling	2,000	1,750	2,250
Assembly	2,500	2,000	750
Total	5,000	4,000	3,000

The budgeted costs in Alloy Instruments Pvt. Ltd's service departments during 2008 are as follows:

	Personnel (Rs.)	Maintenance (Rs.)	Engineering (Rs.)
Variable	25,000	40,000	25,000
Fixed	100,000	75,000	150,000
Total	125,000	115,000	175,000

You are required to:

- Use the direct method to allocate Alloy instruments Pvt. Ltd's service department cost to its production departments.
- Use the step-down method to allocate the company's service department cost to its production departments.
- Explain the three methods of departmental cost allocations.
- What are the limitations of departmental cost allocations?

(20 Marks)

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