

SCHOOL OF ACCOUNTING AND BUSINESS
BSc. (APPLIED ACCOUNTING) GENERAL / SPECIAL DEGREE
PROGRAMME

YEAR I SEMESTER I (Group A)
END SEMESTER EXAMINATION – JULY 2015

AFM 10230 Fundamentals of Management Accounting

Date : 17th July 2015
Time : 9.00 a.m. – 12.00 p.m.
Duration : Three (03) hours

Instructions to Candidates:

- Answer **ALL** questions
- The total marks for the paper is 100.
- Marks for each question are shown in brackets.
- Use of scientific calculator is allowed.
- Answers should be written neatly and legibly.

Question No. 01

- i. What do you understand by the term “cost”?
- ii. For what kind of organizations process costing is important?
- iii. What is meant by direct cost?
- iv. What do you understand by “relevant cost”?
- v. What is the overall objective of cost management?
- vi. What is meant by “semi-variable cost”?
- vii. State two (2) benefits to be gained from a “work breakdown structure” in estimating cost of a project.
- viii. What is meant by “margin of safety” in cost-volume-profit analysis?
- ix. State two non-quantitative factors to be considered in estimating cost of a project.
- x. Why is it important to understanding the “break-even point” for an organization?

(Total 30 Marks)

Question No. 02

- i. MATRIX PLC produces a liquid chemical within a single production process. During the month of June the input into the process was 36,000 litres at a cost of Rs. 360,000. (raw material cost Rs. 180,000, direct labour cost Rs. 120,000, production overheads Rs. 60,000) there were no opening or closing inventories and all output was fully complete. The normal loss of the process is 10% of the input. You are required to prepare **process account** and calculate the **cost per litre** of output for the process for each of the following situations.
- a. Actual output is 30,000 units and scrap value per lost (damaged) unit is Rs.5.00
 - b. Actual output is 35,000 units and scrap value per lost (damaged) unit is Rs.5.00

(10 Marks)

- ii. During the month of June the Global PLC Processes a basic raw material through a manufacturing process that yields three joint products – products X, Y and Z at the split off point. It also yields product C which is identified as a by-product. There were no opening inventories. The products are sold after further processing. Joint costs incurred were Rs. 2,000,000. Following information also given.

Products

- X – 120,000 units with a sales value of Rs. 7.50 per unit
- Y – 60,000 units with a sales value of Rs. 25 per unit
- Z – 180,000 units with a sales value of Rs. 3.33 per unit
- C – 100,000 units with a sales value of Rs.2.00 per unit

Further processing costs

- X - further processing costs Rs. 240,000
- Y - further processing costs Rs. 300,000
- Z - further processing costs Rs. 60,000

Allocate joint cost using net realizable value method.

(10 Marks)

(Total 20 Marks)

Question No. 03

KLM Ltd manufactures and sells an electronic product which at present generates them a contribution of Rs. 2,500 per unit sold. The company presently sells 5,000 units of this completed product. The company is contemplating making one of its electronic components also by itself which at the moment is purchased for Rs.80 per unit. The company has worked out that it can manufacture this unit at Rs.50. The company requires 100,000 such units in a given period. If the company decides to produce this component then it will have less space to manufacture its final product, and its envisaged that they will be able to only manufacture and sell 4,000 units of the final product then. If this component is manufactured the company will need to purchase some additional machinery for this purpose and that would cost an additional Rs.2,400,000 and this is expected to have a useful economic life of 3 years.

- i. Should the company manufacture this component as well in the future?

(10 Marks)

- ii. A manufacturer has three products, A, B and C. The following are the details in respect of those three products.

	<u>Product A</u>	<u>Product B</u>	<u>Product C</u>
Annual sales for the current period (units)	3,000	3,000	2,000
Selling price (Rs.)	30	41	49
Unit cost (Rs.)	27	33	39
Manufacturing time required per unit (hours)	2	2	2

The firm is working at its full capacity of 12,000 manufacturing hours per year. Fixed manufacturing overheads are absorbed into unit costs at the rate of 200% on variable cost.

Additional information

- manufacturing time can be switched from one product to another.
- the demand for the next year will be:

<u>Product A</u>	<u>Product B</u>	<u>Product C</u>
10,000	9,000	2,000

You are required to calculate the OPTIMUM PRODUCT MIX and its CONTRIBUTION for the next year.

(10 Marks)

(Total 20 Marks)

Question No. 04

- i. Real cola is an American soft drinks manufacturer. It has two well-known brands in the market called “Fit cola” and “Fun cola”. With the restructuring of the company, it expects to maintain a constant sales mix of 70,000 to 30,000 of these brands respectively per annum. Variable costs per bottle of Fit cola is US\$ 2 and for Fun cola it is US\$ 4. Company has an annual fixed costs of US\$ 300,000. Fit cola is basically produced for family use whereas Fun cola is for the use of hotels. Fit cola was the first product of the company which captured the market within few years of its introduction. Fun cola was introduced to enter into the hotel sector. However, Fun cola is still not that much popular as Fit cola. Profit volume ratio for both Fun cola and Fit cola has been estimated as 66.67%. Mr. Nagarajah who is the Marketing Director of the company wants to know about the break-even point of the company since the unfavourable weather changes throughout the affects the sales of soft drinks.

(10 Marks)

- ii. Assume that you have been appointed as the project manager of the workshop to be held for newly recruited executive level employees at a five star hotel located in Colombo city. Your training manager has given all the responsibilities related to this workshop to you. You have a team of five (5) officers to assist you.

You are required to;

- a. Prepare a detailed work breakdown structure (WBS) for the project and estimate the project cost
- b. Propose your training manager about ways of reducing cost of this kind of projects.

(5 Marks)

(Total 15 Marks)

Question No. 05

Write short notes on followings:

- i. Kaizen costing
- ii. Target costing
- iii. Six sigma
- iv. Life cycle costing
- v. Benchmarking

(Total 15 Marks)

-End of the Paper -