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**SCHOOL OF ACCOUNTING AND BUSINESS**  
**BSc. (APPLIED ACCOUNTING) GENERAL / SPECIAL DEGREE**  
**PROGRAMME 2014/15**

**YEAR I SEMESTER I (Group A)**  
**END SEMESTER EXAMINATION – JUNE 2014**

**AFM 10230 Fundamentals of Management Accounting**

Date : 27<sup>th</sup> June 2014  
Time : 9.00 a.m. – 12.00 p.m.  
Duration : Three (03) Hours

**Instructions to Candidates:**

- This paper consists of three sections (A, B and C).
- Answer any five (5) questions in all, selecting the Question No. 1 of Section A, any three (3) questions from section B and one (1) question from Section C.
- Please submit answers to Question No. 1 of Section A separately.
- The total marks for the paper is 100.
- The marks for each question are shown in brackets.
- Use of scientific calculator is allowed.
- Answers should be written neatly and legibly.

## Section A

### **Question No. 01**

Select the most appropriate answer to each of the following questions given and mark the relevant answer in the sheet separately provided.

1. Accounting can be recognized as
  - a. A tool of maximizing profit
  - b. Process for fulfilling accountability obligations
  - c. Tool of decision making
  - d. None of the above
  
2. Management accounting fulfills
  - a. Controlling needs of managers
  - b. Decision needs of investors
  - c. Operational needs of managers
  - d. None of the above
  
3. Management accounting information is regulated by
  - a. Companies Act
  - b. Sri Lanka Reporting Standards
  - c. Articles of Association of a company
  - d. None of the above
  
4. Which one of the followings is a variable cost in manufacturing?
  - a. Electricity expenses
  - b. Manufacturing manager's salary
  - c. Basic wages of machine operators
  - d. Depreciation of machinery

5. A cost is classified to be a direct cost when
- It is relevant for decisions
  - It is an integral part of manufacturing cost
  - It is conveniently traceable per cost unit
  - It can be allocated to any production cost centre
6. Overhead is comprised of
- All direct costs
  - All indirect costs
  - All fixed costs
  - All variable costs
7. The following data relate to one year in a department:-
- |                        |            |
|------------------------|------------|
| Budgeted machine hours | 25,000     |
| Actual machine hours   | 21,875     |
| Budgeted overheads     | Rs 350,000 |
| Actual overheads       | Rs 360,000 |

Based on the above data, what is the overhead absorption rate applicable for the year?

- Rs. 16.46 per machine hour
  - Rs. 14 per hour
  - Rs. 16 per hour
  - Rs. 14.40 per machine hour
8. On the full cost basis, cost of a cost unit is calculated as
- Variable overheads + fixed overheads
  - Direct cost + variable overheads+ fixed overheads
  - Direct cost + variable overheads
  - None of the above indicates the correct answer

9. Process costing is useful in calculating cost of a cost unit when
- Homogeneous products are produced
  - Heterogeneous products are produced
  - Homogeneous products are produced using division of labour principle
  - Heterogeneous products are produced using division of labour principle
10. Quantities of joint products are identified
- When the production is identifiable into two or more categories having a significant value for further processing
  - When the production is identifiable into some categories having insignificant value
  - When the final output of a process is assessed
  - At the beginning of a process in order to set the input requirements

**(Total 20 Marks)**

### **Section B**

Answer any three (3) questions out of four (4) questions given

#### **Question No. 02**

Star Co. Ltd is engaged in producing a standard umbrella. The manufacturing process is identified to three stages namely Process 1, Process 2 and Process 3. The following details are provided in relation to Process 2 for the month of May 2014.

Opening work in progress as at 01.05.2014 - 480 units with the following details

<b>Item of cost</b>	<b>Level of completion</b>	<b>Cost Rs.</b>
Materials	100%	52,000
Labour	60%	41,000
Overheads	30%	18,000
Total		111,000

Input from Process 1 during the month – 6,200 units @ Rs. 110 per unit

Direct labour cost for the month – 3300 hours at Rs. 150 per hour

Overheads @ Rs. 90 per labour hour

Normal process loss 2%

Transferred to Process 3 during the month – 6,100 units

Closing work in progress as at 31.05.2014 – 600 units with details as given below

Item of cost	Level of completion
Materials	100%
Labour	60%
Overheads	30%

Scraps are saleable at Rs. 100 per unit

The policy of the company is to value the Work In Progress stock at Weighted Average Cost.

**You are required to calculate,**

- a. The cost per unit transferred to Process 3 during the month of May 2014

(10 Marks)

- b. The value of work in progress stock as at 31.05.2014

(06 Marks)

- c. The value of Abnormal Loss for the period

d. 04 Marks)

**(Total 20 Marks)**

### **Question No. 03**

Motomusic Ltd. makes a standard model of car radio, which it sells to car manufacturers at Rs. 12,000 each. Next year the business plans to make and sell 2,000 radios. The business's costs are as follows:

**Manufacturing**

Variable materials	Rs. 4000 per radio
Variable labour	Rs. 2800 per radio
Other variable costs	Rs., 2400 per radio
Fixed costs	Rs. 1,600,000 per year
Administration and Selling costs	
Variable	Rs. 600 per radio
Fixed	Rs. 1,040,000 per year

**Required:**

- a. Calculate the break-even point for next year, expressed in quantity as well as value  
(04 Marks)
- b. Calculate the margin of safety applicable for next year if the plan becomes achievable  
(04 Marks)
- c. Explain what the PV ratio indicates?  
(04 Marks)
- d. Suppose there is a proposal by a consultant that the sales target can be achieved as 150% if further Rs. 2,500,000 could be spent for sales promotion. Should this proposal be accepted?

(08 Marks)

**(Total 20 Marks)**

**Question No. 04**

XY Company assembles a standard household refrigerator in two cost centers namely, assembly department and painting department. Overheads are ascertained using conventional absorption costing method. Painting department does not add any material and its total cost is comprised of

labour cost and overheads. Total final cost of a refrigerator is Rs. 18,700 and of which Rs. 11,000 is direct material cost and Rs. 5,500 is direct material cost. Direct labor has been paid at Rs. 110 per hour. Out of production overhead 60% is attributable to assembly department. However, out of total time 50% is attributable to assembly department. Assembly department overheads are absorbed on the basis of direct material cost and painting department overheads are absorbed on the basis of labour hours. During the year 160 refrigerators have been produced. Under absorption of assembly department overhead is Rs. 5,800 and over absorption of painting department overhead is Rs. 4,100.

**Calculate the followings**

- a. Overhead absorption Rates for Assembly department and Painting department separately on labour hour basis

(12 Marks)

- b. Actual total overhead incurred for the period

(08 Marks)

**(Total 20 Marks)**

**Question No. 05**

Progress Lanka Ltd is reviewing the profitability of its product line, which is comprised of three products namely A,B and C. You are given the following budgeted data for the forthcoming period.

<b>Product</b>	<b>A</b>	<b>B</b>	<b>C</b>
Sales in Units	200,000	120,000	80,000
Sales Revenue (Rs.)	3,000,000	2,880,000	1,760,000
Less: Cost			
Material	1,000,000	960,000	480,000
Labour	800,000	640,000	320,000
Overheads	1,300,000	1,200,000	720,000

Total cost	3,100,000	2,800,000	1,520,000
Profit / (loss)	(100,000)	80,000	240,000

The company is concerned about the loss on Product A and is considering ceasing its production and switching the resulting spare capacity to increase the production of C.

You are given the following additional information.

- i. 80% of the labour cost is variable. 10% of fixed labour of Product Line A can be transferred to Product Line C. Remaining fixed labour of Product Line A can be removed paying a compensation of Rs. 15,000
- ii. 40% of overhead of each product line is variable and the fixed overhead is apportioned among product lines based on variable labour cost
- iii. Sales of Product C can be increased accommodating the additional capacity switch from Product A. However, in order to sell the increased production of product C, selling price will have to be reduced by 10%.

Prepare a marginal cost based performance statement showing operational result of each product for the period on the basis of (a) original budget and (b) after discontinuing product A.

(15 Marks)

On the basis of results, advise the management as to the appropriateness of their decision.

(05 Marks)

**(Total 20 Marks)**



### **Section C**

Answer any one (1) question out of two (2) questions given

#### **Question No. 06**

‘Management accounting serves controlling needs of an organisation’

- a. Differentiate between management accounting and financial accounting

(08 Marks)

- b. Explain why management accounting focuses on cost rather than revenue

(08 Marks)

- c. Explain whether external regulations such as accounting standards are needed for management accounting process.

(04 Marks)

**(Total 20 Marks)**

#### **Question No. 07**

Write short notes on any four (04) of the followings.

- a. Relevant cost
- b. By products
- c. Managerial decision making process
- d. Accountability
- e. Cost plus pricing
- f. Normal process loss

**(Total 20 Marks)**