

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

YEAR I SEMESTER I (Intake IV- Group B)
END SEMESTER EXAMINATION – SEPTEMBER 2015

AFM10230 Fundamentals of Management Accounting

Date : 19th September 2015
Time : 9.00 a.m. - 12.00 p.m.
Duration : Three (03) Hours

Instructions to Candidate:

- This paper consists of three sections (A, B and C).
Section A – Ten Multiple Choice questions (Compulsory)
Section B – Answer four (4) questions out of five (5)
Section C - Answer one (1) questions out of two (2)
- 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

All questions are compulsory in this section and you are required to select the correct answer, to each out of the given alternatives.

- i. Managerial Accounting is concerned with;
 - a. Providing information to the managers of an entity for planning and, controlling decisions
 - b. Recording day -to –day transactions of the business organization
 - c. Providing information to external users of an entity for planning, controlling & decision making.
 - d. Adhering to the statutory requirements

(2 Marks)

- ii. Cost Accounting emerged mainly on account of;
 - a. Statutory requirements
 - b. Competition in the market
 - c. Limitations of financial accounting
 - d. Determining the tender prices

(1 Mark)

- iii. Decision making process has correctly mentioned in;
 - a. Set objectives, data collection ,search for alternatives, selecting the best alternative, implement the decision, respond to deviations & compare results
 - b. Set objectives, search for alternatives, data collection, selecting the best alternative, implement the decision, measure actual results, compare actual results with plan & respond
 - c. Set objectives, data collection ,search for alternatives, , selecting the best alternative, implement the decision, respond to deviations & compare the results, measure actual results
 - d. search for alternatives, Set objectives, data collection, selecting the best alternative, implement the decision, compare actual results with plan & respond

(2 Marks)

iv. Challenges of introducing the technology in to management accounting practices;

- a. may result in improved efficiency
- b. May result in increasing the cost
- c. May require repositioning of skill and knowledge of users
- d. All of the above

(1 Mark)

v. A monetary measure of the resources sacrificed to achieve a specific objective, such as manufacturing or acquiring a product is known as;

- a. Cost object
- b. Cost
- c. Responsibility centre
- d. Cost centre

(2 Marks)

vi. Following information is provided in relation to a Garment manufacturing organization for the month of July 2015.

	Rs '000'
Cost of fabrics	2,500
Other direct materials	900
Machine operators' salary	750
Supervisors' salary	500
Head office salaries	1,000
Machinery maintenance	300
Electricity & Water -Manufacturing	500
Royalty payment	250

Total direct cost of manufacturing for the month is;

- a. Rs.4,900,000
- b. Rs.4,400,000
- c. Rs.3,400,000
- d. Rs.4,150,000

(3 Marks)

vii. Using the data given in (vi) above, the calculated total manufacturing cost of the Garment Factory for July 2015 is;

- a. Rs.6,700,000
- b. Rs.6,600,000
- c. Rs.5,700,000
- d. Rs.5,400,000

(2 Marks)

viii. Marginal cost refers;

- a. Costs which are included but not considered for decisions
- b. Costs that have already been incurred
- c. Costs which are to be incurred although the plant is shut down temporarily
- d. Variable cost of producing an additional unit

(2 Marks)

ix. The following information is provided

Output 6,000 units

Variable cost per unit Rs.60

Direct Material cost per unit Rs.30

Selling Price per unit Rs.80

Total fixed cost Rs.30,000

Accordingly;

Contribution per unit & the break-even point in units are respectively;

- a. Rs.25 and 1,000 units
- b. Rs.20 and 1,500 units
- c. Rs.30 and 1,500 units
- d. Rs.50 and 1,500 units

(4 Marks)

- x. Use the data given in the (ix) above, If company is willing to earn a profit of Rs.20,000 calculate number of units to be sold in order to achieve the target?
- a. 2,000 units
 - b. 1,500 units
 - c. 2,500 units
 - d. 2,250 units

(3 Marks)

(Total 22 Marks)

SECTION-B

Answer **four (4)** questions out of ***five (5)***

Question No. 02

- i. Accounting information is widely used by different stakeholders to fulfill their diverse decision making needs.

Identify three (3) uses of accounting information to managers of the organization.

(2 Marks)

- ii. The following data related to the manufacturer of a standard product during four weeks ending 30th June 2015;

Raw material consumed	Rs.40,000
Direct wages	Rs.24,000
Machine hours worked	190 Hours
Machine Hour Rate	Rs.20
Factory overhead	15% on direct wages cost
Selling overhead	75 cents per unit sold
No.of units produced	20,000
No.of units sold	18,000(@ Rs.5 each)

You are required to;

- a. Calculate the cost of production per unit for the period.

(4 Marks)

- b. Calculate the total profit they earned during the period

(2 Marks)

- iii. “Cost information is required to achieve different kind of objectives such as inventory valuation, decision making or control”.

Briefly explain following cost concepts.

- a. Cost Object
b. Responsibility Centre

(4 Marks)

(Total 12 Marks)

Question No. 03

- i. The information given below has been taken from the cost records of an engineering company in respect of job No.500

Direct Materials Rs.7, 500.00

Direct wages

Department	Rate
X	50 hours @ Rs.8 per hour
Y	60 hours @ Rs.5 per hour
Z	30 hours @ Rs.10 per hour

The overhead expenses are as follows:

Variable: Department X – Rs. 20,000.00 for 5000 labour hours

Department Y – Rs. 6,0000.00 for 30,000 labour hours

Department Z– Rs. 20,000.00 for 10,000 labour hours

Fixed: Rs.90, 000.00 for 45,000 working hours

Required,

- a. Prepare the job cost record for Job.500
(6 Marks)
- b. Calculate the selling price for the job to have a profit of 18% mark- up.
(3 Marks)
- ii. Write two (2) advantages and two (2) disadvantages of Job costing system.
(3 Marks)
- (Total 12 Marks)**

Question No. 04

- i. Describe the meaning of Margin of Safety (MOS) in brief?
(1 Mark)
- ii. The following data are available from the records of ABC Ltd. For the year ended 31st March 2015:

	Rs.
Sales	80,000
Variable costs	40,000
Fixed Cost	24,000

You are required to:

- a. Calculate the P/V ratio, B.E.P and MOS?
(5 Marks)
- b. Calculate the effect of 10% increase in sales price to above (a)?
(3 Marks)
- c. Calculate the effect of 2% decrease in Variable Cost to above (a)?
(3 Marks)
- (Total 12 Marks)**

Question No. 05

In a factory producing two different kinds of products, the limiting factor is the availability of labour.

	Cost per unit (Rs)	
	Product A	Product B
Materials	5.00	5.00
Labour		
6 hours @ Rs.0.50	3.00	-
3 hours @ Rs.0.50	-	1.50
Overheads:		
Fixed (50% labour)	1.50	0.75
Variable	1.50	1.50
Total Cost	11.00	8.75
Selling price	14.00	11.00
Profit	3.00	2.25
Total Production for the month (units)	500	600

Maximum capacity per month is 4,800 hours

You are required to;

- a. Calculate the contribution per limiting factor.

(6 Marks)

- b. Prepare Statement of profitability and show which product is more profitable.

(6 Marks)

(Total 12 Marks)

Question No. 06

- i. List three (3) examples for application of marginal costing techniques to managerial decision making?

(3Marks)

- ii. The following data are available in respect of product 'A' manufactured by Arjun Ltd.

	Rs.
Sales	500,000
Direct Materials	200,000
Direct Wages	100,000
Variable Overheads	50,000
Fixed Overheads	100,000

The company now proposes to introduce a new product 'B' to the market, so that sales may be increased by Rs.100,000. There will be no increase in fixed costs and the estimated variable costs of the product 'B' are;

	Rs.
Direct materials	48,000
Direct wages	22,000
Overhead	14,000

You are required to;

- a. Prepare statement to calculate the profitability of existing product

(4 Marks)

- b. Prepare marginal costing statement including new proposal and give your recommendation, whether the product B will be profitable or not?

(5 Marks)

(Total 12 Marks)

SECTION C

Answer **One (1)** question out of **two (2)**

Question No. 07

‘Thusitha Manufacturing (TM) (Pvt) Ltd.’ is a labour intensive factory operates in Katunayake export processing Zone. TM manufactures One finished product namely X-34 and three more sub components.

However, the finished Product (X-34) has to pass through three (3) processes (A, B and C). During the last few months they were suffered lot, without having a responsible person to maintain their costing system to provide on time accurate cost data of the factory due to the resignation of their management accountant. Recently, they have hired a well-qualified Management Accountant to look after their management accounting function of the factory. The very first task assigned to him by the senior management is to systematize the management accounting system of the factory to provide the accurate cost data to the head office. He has identified the normal wastage of each process as 2% in A, 5% in B and 10% in C on the basis of number of units entering each process. The scrap value of the wastage of process A, B and C is Rs.10, Rs.40 and Rs.20 per 100 units respectively.

The output of each process is transferred to the next process and the finished products are transferred from process C into stock. The following further information is obtained for a period of one month.

	Process A (Rs)	Process B (Rs)	Process C (Rs)
Materials Consumed	120,000	40,000	40,000
Direct Labour	80,000	60,000	60,000
Manufacturing Overhead	20,000	40,000	20,000

20,000 units were put into the process A at a cost of Rs.160,000. The output of each process has been A 19,600 units, B 18,400 units, and C 16,700 units. There was no stock of Work – in- progress in any process during this period.

Assume you as the newly hired management accountant and to make a report to the senior management to explain regarding the existing position of the process of producing X-34.

- a. Briefly describe the meaning of responsibility centre in relation to your new position as the Management Accountant?
(2 Marks)
 - b. Discuss how you would define the normal loss, abnormal loss and abnormal effectives if any?
(4 Marks)
 - c. Is there any difference in treating the normal loss and abnormal loss in process accounting? Briefly explain.
(4 Marks)
 - d. Further you are required to prepare following set of cost accounts to provide as an annexure to your report ;
 - i. Process Accounts
(12 Marks)
 - ii. Normal Wastage A/C
(3 Marks)
 - iii. Abnormal wastage A/C
(3 Marks)
 - iv. Abnormal Effectives A/C
(2 Marks)
- (Total 30 Marks)**

Question No. 08

Oshadi Company Ltd. is a manufacturing company which manufactures two main products “X” & “Y”, both products passes through two production departments" Assembling" & "Finishing" and they have two Service departments namely "Maintenance" and “Stores" to serve both production and service departments. Following information is provided with related Oshadi Company Ltd. for the period of one year.

Finishing process is considered as Machine intensive production department and Assembling process is considered as labour intensive department.

	Assembling	Finishing	Maintenance	Stores
Budgeted overhead cost Rs.	260,000.00	220,000.00	-	-
Budgeted Machine hours	40,000	22,000	-	-
Budgeted labour hours	32,000	40,000	-	-
Actual overhead allocated				
Power	80,000.00	50,000.00	40,000.00	20,000.00
Indirect Wages	86,000.00	54,000.00	32,000.00	18,000.00
Number of employees	150	70	20	10
Cost of Machine	600,000.00	900,000.00	-	-
Floor space	3,500	4,700	1,300	500

Following actual overheads also incurred during the period under review.

Rs.

Welfare	420,000.00
Depreciation	250,000.00
Rent & Taxes	340,000.00

	X	Y
Number of units produced	8,000	12,000
Direct Material cost (Rs)	480,000.00	720,000.00
Direct Labour cost (Rs)	520,000.00	380,000.00
Gross profit margin	12%	20%
Actual Machine hours		
Assembling	8,000	12,000
Finishing	24,000	32,000
Actual labour hours		
Assembling	30,000	24,000
Finishing	16,000	20,000

Percentages of services provided by each service department to the other departments are as follows;

	Assembling	Finishing	Maintenance	Stores
Maintenance (As a %)	60	30	-	10
Stores (As a %)	40	40	20	-

Newly hired Management Accountant is trying to establish a proper costing system to maintain proper management accounting information system. As one of the senior members of the Management Accounting team, Management Accountant is required your support to prepare a detail report on overhead absorption of the company by providing following information.

- a. Apportion the unallocated costs between the departments using the basis of apportionment that is most appropriate from the information given and determine the total overhead budget for each department.

(4 Marks)

- b. Calculate the budgeted overhead absorption rates for each of the production departments using the most appropriate basis for recovery in each case.

(4 Marks)

- c. Calculate the cost per each product for Oshadi Ltd.

(4 Marks)

- d. Estimate unit selling price of both products

(4 Marks)

- e. Find over/ under absorbed overhead cost for the given period.

(6 Marks)

Management Accountant of Oshadi Ltd found that while it costs Rs.6.25 each to make a sub component X-70 which is an essential for producing both products 'X' and 'Y', the same is available in the market at Rs.5.75, with an assurance of continued supply. The break-down of the cost is as follows;

	Per each unit
	Rs.
Direct Materials	2.75
Direct Labour	1.75
Other Variables	.50
Depreciation and other fixed cost	<u>1.25</u>
Total	<u>6.25</u>

f. Should company make or buy component X-70? Recommend

(4 Marks)

g. What would be your decision if the supplier offers the component at Rs.4.85 each?

(4 Marks)

(Total 30 Marks)