UNIVERSITY OF COLOMBO, SRI LANKA

FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration (Level I – Semester II) Repeat Examination 2010

ACT 1301 – Management Accounting Applications

Three (03) Hours

Answer All Questions

Use of Calculators is Allowed

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1. i. Explain the term "Cost Object" and give five (05) examples of cost objects.

(07 Marks)

ii. Describe Two-stage overhead allocation process with a suitable example.

(08 Marks)

iii. The following information is extracted from year 2011 budget of XYZ plc which manufactures product X, Y and Z in three production departments.

	Product X	Product Y	Product Z
Production units	8,000	6,000	12,000
Direct material cost (Rs. Per unit)	14	8	18
Direct labor requirements (Hours per unit)			
- Cutting department			
Skilled	6	10	4
Unskilled	12	2	6
- Machining department	1	1/2	2/3
- Pressing department	4	6	8
Machine hour requirements (Hours per unit)			
- Machining department	4	3	5

The skilled labors employed in the cutting department are paid Rs. 8/- per hour and the unskilled labors are paid Rs. 5/- per hour. All the labors in the machining and pressing departments are paid Rs. 6/- per hour.

	Production Departments			**Service Departments**	
	Cutting	**Machining**	**Pressing**	**Engineering**	**Personnel**
Budgeted total overheads (Rs.)	308,964	128,632	116,904	112,000	68,000
Allocation					
- Engineering	20%	45%	25%	-	10%
- Personnel	55%	10%	20%	15%	-

XYZ plc operates a full absorption costing method.

You are required to calculate the total budgeted manufacturing cost of;

a. One completed unit of Product X
b. One in-complete unit of Product Y which has been processed by the cutting and machining departments but which has not yet been passed into the pressing department

(20 Marks)

(Total 35 marks)

2. i. How can you differentiate variable costing from absorption costing?

(07 Marks)

ii. What are the differences between traditional and Activity based costing.

(08 Marks)

iii. Management accountant of Texstar plc is currently planning to use activity based costing method to its four products i.e. P, Q, R and S. Details of the four products and relevant information are given below for one month.

Product	P	Q	R	S
Output in units	240	200	160	240
Costs per unit (Rs.)				
- Direct material	80	100	60	120
- Direct labor	56	42	28	42
- Machine hours (per unit)	8	6	4	6

The four products are similar and are usually produced in production runs of 40 units and sold in batches of 20 units. The production overhead is currently absorbed by using a machine hour rate and the total of the production overhead for the month has been analyzed as follows;

Production overhead	Rs.
Machine department costs (rent, business rates, depreciation and supervision)	20,860
Set up costs	10,500
Stores receiving	7,200
Inspection/Quality Control	4,200
Material handling and dispatch	9,240

Cost drivers to be used are as listed below for the overhead costs shown above;

Cost	Cost driver
Set up costs	Number of production runs
Stores receiving	Requisitions raised
Inspection/Quality Control	Number of production runs
Material handling and dispatch	Orders executed

The number of requisitions raised on the stores was 40 for each product and the number of orders executed was 84, each order being for a batch of 20 of a product.

You are required to;

(a) Calculate the total costs for each product if all overhead costs are absorbed on a machine hour basis

(b) Calculate the total costs for each product using activity based costing

(c) Show the differences and comment briefly on the calculated figures in your answer (a) and (b) above

(20 Marks)

(Total 35 marks)

3. i. Describe three (03) different approaches of presenting Cost-Volume-Profit relationship in graphical format.

(5 Marks)

ii. The following information for the first six months of 2010 had been given from the records of Freshtex plc manufactures one standard product which sells at Rs. 20/-.

Month	**Sales units**	**Profit/(loss) Rs.**
January	60,000	80,000
February	70,000	120,000
March	30,000	(40,000)
April	48,000	32,000
May	52,000	48,000
June	36,000	(16,000)

You are required to prepare a break even and profit-volume graph showing the result for the six months ended 30th June 2010 and to determine;

(a) the fixed costs

(b) the variable cost per unit

(c) the profit – volume ratio

(d) the break – point

(e) the margin of safety

(10 Marks)

(Total 15 marks)

4. i. Budgeting is a "bottom-up" approach. Explain whether you agree with this statement.

(10 Marks)

ii. ABC Plc is preparing its cash budget for the months of April -July. The forecasted sales of this period are given below;

	Rs.
April	120,000
May	140,000
June	110,000
July	130,000

40% of its sales are expected to be for cash. Out of its credit sales, 70% are expected to pay in the month after sale and take a 2% discount, 27% are expected to pay in the second month after the sale, and the remaining 3% are expected to be bad debts.

You are required to calculate the cash receipts from sales to be shown in the cash budget for above mentioned months.

(05 Marks)

(Total 15 marks)
