EASTERN UNIVERSITY, SRI LANKA

Faculty of Commerce and Management

Third Year Second Semester Examination in Business Administration.

2004/2005 (November/December 2006)

(Proper /Repeat)

MGT 3033 Managerial Accounting

Answer All Questions. **Time: Three Hour**

Calculator Permitted

Q1. a) Kula manufactures two products, A and B. The summarized balance sheet of the company as at 31st March, 2006 is as under:

	Rs.	Rs.
Share capital	12,00,000	
Retained income	96,000	12,96,000
		12,96,000
Represented by:		
Fixed Assets	12,00,000	
Provision for Depreciation	(3,00,000)	9,00,000
Inventories:		
Raw materials	1,14,000	
Finished goods	2,40,000	3,54,000
Debtors		90,000
Bank/Cash		60,000
		14,04,000
Less: Creditors	48,000	
Provision for taxation	60,000	(1,08,000)
		12,96,000

The following information has been furnished to you for the preparation of the budget for the year ending 31st March, 2007.

(i) Sales forecast:

Product A: 24,000 units at Rs.30 per unit

Product B: 15,000 units at Rs.40 per unit.

(ii) Raw materials:

Particulars	Products A	Products B
Material X @ Rs.3 per Kg	2Kgs.	4Kgs
Material Y @ Rs.1 per Kg	1Kg	2kgs.

(iii) Direct Labour:

Department P: 2 hrs.@ Rs.1 per hour for A; 1hr.@ Rs.2 per hour for B
Department Q: 1 hrs.@ Rs.3 per hour for A; 1hr.@ Rs.3 per hour for B

(iv) Overheads:

Particulars	Dept. P	Dept.Q
Fixed overheads.per annum:		
Depreciation	48,000	12,000
Others	96,000	30,000
Variable overheads per hour	0.50	1.50

(v) Inventories:

a) Raw materials:

Opening Stock	Closing Stock
X 36,000 Kgs.	X 48,000 Kgs.
Y 6,000Kgs	Y 12,000 Kgs.

b) Finished Goods:

Opening Stock	Closing Stock
A 600 units	A 6,600 units
B 6,000 units	B 3,000 units

(vi) Selling, Distribution and Administration expenses are estimated at Rs. 1,80,900 per annum.

(vii) The cost of raw material purchases, direct wages, factory overheads, selling, distribution and administration overhead of the year will be met in full in cash during the year. The estimated position of debtors and creditors as on 31st March, 2007 is Rs. 1,500,000 and Rs. 48,000 respectively. Income – tax provision standing at the beginning of the year will be paid during the year. Rate of income tax is 50%. An equipment purchased at Rs. 1,20,000 will be paid during the year.

You are required to prepare for the year ending 31st March, 2007:

a) Cost of Good Sold Budget

b) Cash budget

c) Projected Balance Sheet as at 31st March, 2007 in the same format as given in the question.

(20 marks)

b) State how Zero Base Budgeting is superior to Traditional Budgeting.

(05 marks)

(Total 25 marks)

Q2. a) The directors of XYZ Ltd. which manufactures three products, A,B and C, have asked for an advice on the product mix of the company. The following information is given below.

Particulars		Products A	B	C
Standard cost per unit:				
Direct Material (Rs.)		20	60	40
Variable overhead (Rs.)		6	4	10
Direct Labour:	Rate/Hr.	Hrs.	Hrs.	Hrs.
Department 1	Rs.1	28	16	30
2	Rs.2	5	6	10
3	Rs.1	16	8	30
Current production p.a(units)		10,000	5,000	6,000
Selling price per unit (Rs.)		100	136	180
Forecast of sales for next year (Rs.)		12,000	7,000	9,000

Fixed overheads p. a. Rs.4, 00,000.

Further, the type of labour required by Department 2 is in short supply and it is not possible to increase the manpower of this department beyond its present level.

1) Required :

Prepare a statement showing the most profitable mix of the products to be made and sold. The statement which should be presented in two parts should show:

i. the profit expected on current budgeted production; and

ii. the profit which could be expected if the most profitable mix was produced.

(10 marks)

2) Bring out any problems, which are likely to arise if the product mix in (i) (ii) above were to be adopted.

(03 marks)

b) Distinguish between Marginal Costing and Absorption Costing.

(02 marks)

(Total 15 marks)

Q3. a) The following information is given in respect of Process No. 3 for the month of January,2006.

Opening stock – 2000 units made- up of:

	(Rs.)
Direct materials –I	12,350
Direct materials –II	13,200
Direct Labour	17,500
Overheads	11,000

Transferred from Process 2 - 20, 000 units @ Rs. 6 per unit

Transferred to Process 4 – 17,000 units

Expenditure incurred in Process 3

	(Rs.)
Direct Materials	30,000
Direct Labour	60,000
Overheads	60,000

Scrap: 1,000 units -- Direct materials 100%, Direct labour 60%, Overheads 40%

Normal loss 10% of production.

Scrapped units realized Rs. 4 per unit.

Closing stock: 4,000 units – Degree of completion: Direct materials 80%, Direct labour 60% and overheads 40%.

Prepare Process 3 Account using average price method, along with necessary supporting statements.

(17 marks)

b) Differentiate the feature of Job Costing and Process Costing.

(03 marks)

(Total 20 marks)

Q4. A company manufacturing two products, A and B, uses standard costing system. The following data relating to October, 2006 have been furnished:

Products	A Rs.	B Rs.
Standard cost per unit:		
Direct Materials	2	4
Direct wages.	8	6
Fixed overheads	16	12
	26	22
Units processed /In process: (units)		
Beginning of the month: All materials applied and 50% complete in respect of labour and overheads	4,000	12,000
End of the month: All materials applied and 80% complete in respect of Labour and overheads	8,000	12,000
Units completed and transferred to Warehouse during the month.	16,000	20,000

The following were the actual costs recorded during the month:

Direct materials purchased at standard price amount to Rs. 2,00,000 and the actual cost of which is Rs. 2,20,000. Direct material used for consumption at standard price amount to Rs. 1,75,000. Direct wages for actual hours worked at standard wage rates were Rs.4,20,000 and at actual wage rates were Rs. 4,12,000.Fixed overheads budgeted were Rs. 8,25,000 and the actual fixed overheads incurred were Rs. 8,50,000.

You are required to calculate the following for the month of October 2006.

i. Direct materials price variance at the point of consumption and at the point of purchase.

ii. Direct material usage variance.

iii. Direct wages rates and efficiency variances

iv. Fixed overheads volume and expenditure variances

(20 marks)

Q5. **(a)** XYZ Ltd sells 3 products L, M, and N. The following information is provided to you.

Product	L	M	N
Sales volume (units)	6000	7000	5000
Selling price (Rs.)	5	10	8
Variable cost (Rs.)	2.5	5	6

Fixed cost p.a Rs. 40,000

Required:Construct a multi product PV chart

(06marks)

(b) The following data relates to a particular stock item.

Normal usage	110 units per week
Maximum usage	140 units per week
Lead time	25 – 30 days
EOQ previously calculated	5,000 units

Required: Using the above data calculate

i. Reorder level

ii. Maximum level

iii. Minimum level .

(06 marks)

(c) Explain the term "Margin of Safety"

(04 marks)

(d) Describe the concept of 'ABC analysis' as a technique of inventory control.

(04 marks)

(20 marks)