UNIVERSITY OF RUHUNA

Master of Business Management Degree Programme

First Semester End Examination – December 2019

MBM 11053 – Accounting for Managers

Answer all questions.

Time : 03 Hours
Total Marks 60

---

1. (A). With suitable examples, explain the importance of accounting to achieve organizational strategic objectives.

(05 Marks)

(B). According to the conceptual framework for financial reporting, briefly discuss the qualitative characteristics of accounting information.

(05 Marks)

(Total Marks 10)

2. Gold Appeals Limited makes three types of winter jackets – Topcoat (T), the Peacoat (P) and the Bomber (B). A traditional product costing system is used at present; although an activity based costing (ABC) system is being considered. Details of the three products for a typical period are:

	Labour hours per unit	**Machine hours per unit**	**Material costs per unit Rs.**	**Production units**
Product T	4	2	1,500	500
Product P	2	3	2,400	600
Product B	3	1	3,600	325

Total production overheads for the period are Rs. 750,000 and further analysis shows that the total production overheads can be divided as follows:

	%
Costs related to set-ups	25
Costs related to machinery	35
Costs related to material handling	20
Costs related to inspection	10
General overheads – labour related	10
Total production overhead	100

The following total activity volumes are associated with each product line for the period:

Product	Number of set-ups	Number of movements of materials	Number of inspections
Product T	125	240	35
Product P	275	120	40
Product B	100	140	45

A direct labour cost is Rs. 120/= per hour and production overheads are absorbed on a machine hour basis.

Required:

(A). Calculate the cost per unit for each product using traditional methods, absorbing overheads on the basis of machine hours.

(04 Marks)

(B). Calculate the cost per unit for each product using ABC principles.

(04 Marks)

(C) Discuss the implications of a switch to ABC on pricing and profitability.

(02 Marks)

(Total Marks 10)

3. Jayabima Manufacturing Company has several processing departments. Costs charged to the Assembly Department for November 2019 totaled Rs. 2,760,000 as follows.

Work in process, November 1

Materials	240,000	
Conversion costs	80,000	320,000
During the period added		
Materials added		1,600,000
Labor		480,000
Overhead		360,000

Production records show that 48,000 units were in beginning work in process 40% complete as to conversion costs. 800,000 units were started into production, and 24,000 units were in ending work in process 60% complete as to conversion costs. Materials are entered at the beginning of each process.

Required:

(A). Determine the equivalent units of production and the unit production costs for the Assembly Department.

(06 Marks)

(B). Prepare a production cost report for the Assembly Department.

(04 Marks)

(Total Marks 10)

4. (A). Good Health Pvt Ltd. is evaluating the introduction of nutrition cereal packets in two flavours (Pineapple and Strawberry) which will be sold in boxes of 6 packets each. The details of the two products are as given below:

	Pine apple	Strawberry
Selling Price per box	1,080	1,640
Direct Material per box (Rs.)	390	542
Direct Labour per box (Rs.)	150	180
Variable production overhead per box (Rs.)	90	108
Sales for the month (boxes)	2,000	1,000

The fixed production overhead and fixed non-production overhead per month are expected to be Rs.1,625,000/- and Rs.461,200/- respectively.

Required

(i) Calculate the combined profit volume/Contribution Margin ratio.

(02 Marks)

(ii) Compute the monthly break-even levels in boxes for each type of product separately.

(02 Marks)

(B). Ruhunu PLC, a diversified company with many subsidiaries, is in the process of finalizing the group capital investment budget. The following proposal has been put forward for evaluation:

The company is expecting to expand the capacity of the manufacturing plant by purchasing new machinery at a cost of Rs.200 million.

The expected useful life of the new machinery is 5 years from the commencement of operations.

The existing machinery can be sold for Rs.25,000,000 as scrap value after assembling of the new machinery and the new machinery expected to have a scrap value of Rs.36,000,000/- at the end of the fifth year of operations.

Revenue expected to be earned and the expenses to be incurred due to the purchase of the new machinery have been identified as follows:

Year	1	2	3	4	5
Revenue	55,000,000	70,000,000	80,000,000	80,000,000	80,000,000
Maintenance and Overheads (Rs.)	10,000,000	15,000,000	18,000,000	21,600,000	25,920,000
Depreciation (Rs.)	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000

Ignore Taxation.

Required:

(i) Calculate the following based on the information given above:

(a) The Payback period

(02 Marks)

(b) Net Present Value if the company's cost of capital is 14%.

(02 Marks)

(ii) Assess with reasons whether Ruhunu PLC should go ahead with this proposal or not.

(02 Marks)
(Total Marks 10)

5. (A). "The usefulness of standard costing in a modern business environment is questionable, according to the experts in the planning field"

State three (03) disadvantages / limitations of standard costing.

(03 Marks)

(B). Beauty Apparels Pvt Ltd produces shirts and operates a standard costing system. The following information relates to the month of November 2019:

Actual information for the month was as follows;

		Rs.
Direct materials used	10,000 meters	1,250,000
Direct labour paid	15,000 hours	750,000
Variable overheads		825,000
Fixed overheads		150,000

The standard cost card per shirt is as follows;

		Rs.
Direct material	2 meters @ Rs.130 per meter	260
Direct labour	3 hours at Rs.60 per hour	180
Variable overheads	3 hours at Rs. 50 per hour	150
Fixed Overheads	3 hours at Rs. 10 per hour	30
		620

Actual production for the month was 4,800 shirts.

Budgeted production for the month was 4,200 shirts and budgeted fixed overhead for he month was Rs.175,000/-.

There are no opening or closing stocks of material, finished goods and work-in-progress.

Calculate the following variances:

(i). Direct Material Price Variance.
(ii). Direct Material Usage Variance.
(iii). Direct Material Cost Variance.
(iv). Direct Labour Rate Variance.
(v). Direct Labour Efficiency Variance
(vi). Variable Overhead Cost Variance.
(vii). Fixed Overhead Expenditure Variance

(07 Marks)
(Total Marks 10)

6. (A). "Both standard costing and budgeting are critical tools in planning, operation and control of a business organization".

Briefly explain differences between Standard Costing and Budgeting.

(02 Marks)

(B) Vinsara (Pvt.) Ltd. produces Product A. The company is preparing the budget for the quarter ending 31st March 2020.

The following information is extracted from the company's records for the quarter ending 31st March 2020:

The estimated sales for the quarter is 15,000 units and other forecasted data to be used to prepare the budget are as follows:

Selling price per unit	Rs 500/-
Opening stock	750 units
Closing stock	1,550 units

Estimated direct material requirement of Product A is 2.5 kg per unit and other information related to direct materials is as follows:

Price per kilogram	Rs.60/-
Opening direct material stock	10,000 kg
Closing direct material stock	6,250 kg

Each unit of Product A requires 3 hours of labour and the rate per labour hour is Rs.50/-

.

Required:

Prepare the following for the quarter ending 31st March 2020

(i). Sales Budget.

(ii). Production Budget.

(iii). Direct Material Usage Budget.

(iv). Direct Material Purchase Budget.

(v). Direct Labour Cost Budget

(08 Marks)
(Total Marks 10)

@@@@@@@@@@