UNIVERSITY OF RUHUNA
FACULTY OF GRADUATE STUDIES
Master of Business Management Degree Program 2022/2023
First Semester End Examination June 2023

MBM 11053: Accounting for Managers **Duration: Three hours**

- **The Question Paper contains six (06) questions.**
- **Answer only five (05) questions.**
- **Calculators are allowed.**

Question No. 01

A. Briefly explain the objective of general-purpose financial reporting.

(03 Marks)

B. "The conceptual framework identifies two types of qualitative characteristics of useful financial information. There are fundamental qualitative characteristics and enhancing qualitative characteristics."

Briefly explain enhancing qualitative characteristics

(03 Marks)

C. Briefly explain the elements of financial statements.

(03 Marks)

D. Briefly explain the difference between controls and control in a management control system.

(03 Marks)

(Total Marks 12)

Question No. 02

A. A company is planning to purchase 120,000 units for the upcoming year. The item is purchased in boxes each containing 10 units, at a price of Rs. 200 per box. The cost of holding a unit in inventory for a year is 15% of the purchase price. The ordering cost per order is Rs. 200.

Required:

i. Calculate the economic order quantity (EOQ) in boxes.

ii. How many orders will be done per year?

iii. For how many days should be ordered.

(02 Marks)

B. A company has three production departments and two service departments. The following table shows how costs have been allocated and the relative usage of each service department by other departments.

	Production Departments			Service Departments	
	P1	P2	P3	S1	S2
Cost (Rs.'000)	6,000	8,000	4,000	5,000	5,400
Proportion: S1	20%	30%	25%	-	25%
Proportion: S2	25%	25%	30%	20%	-

Required:
Prepare the overhead analysis sheet for reapportionment using equation method.

(03 Marks)

C. A chocolate manufacturing company produces three types of chocolates named as sky bar, star bar and sun bar. The information relating to each of the products is as follows:

	Sky Bar	*Star Bar*	*Sun Bar*
Direct material cost per unit (Rs.)	17	19	16
Direct labour cost per unit (Rs.)	07	14	12
Selling price per unit (Rs.)	50	45	43
Actual production/ sales (Units)	500,000	150,000	250,000
Direct labour hours per unit	0.1	1.0	0.5
Direct machine hour per unit	1.0	4.0	2.0
Number of set-ups	3	1	26
Number of purchase orders	4	6	20
Number of deliveries to retailers	10	10	18

	Rs.
Machine costs	1,600,000
Costs of purchase orders	1,500,000
Set-up costs	3,000,000
Costs of deliveries to retailers	1,900,000
Total annual overhead costs	8,000,000

Required:
Calculate the total profit of the three types of chocolates using each of the following methods to attribute overheads:

i. Traditional absorption costing (TAC) based upon machine hours.
ii. Activity based costing (ABC).

(07 Marks)

(Total Marks 12)

Question No. 03

A. Briefly explain special features of the process costing.

(02 Marks)

B. A company produces a product through the three-manufacturing process and the information related to the process 2 for the month of May 2023 is as follows.

Input from process 1	5,000 units at Rs.277.92
Raw materials added	Rs. 1,087,200
Labour cost	Rs.784,800
Production overheads cost	Rs.499,200
Actual loss	800 units

Work in progress at the beginning of the month (OWIP) and ending of the month (CWIP) were 600 units & 1,000 units, respectively. Those were completed as follows.

.	*OWIP*	*Cost of OWIP (Rs.)*	*CWIP*
Raw materials transferred from process 1	100%	210,840	100%
Raw materials added	60%	57,060	75%
Labour cost	30%	59,640	40%
Production overheads cost	30%	21,600	20%

Normal loss is 10% of active units and scraps can be sold at Rs.60 per unit.

Required:

Prepare the process 2 account and other relevant accounts under the weighted average cost (WAC) methods.

(10 Marks)

(Total Marks 12)

Question No. 04

A. "Standard cost is the planned unit cost of a product or service. Further standard cost is predetermining cost agreed earlier under specified working conditions".

Briefly explain this statement with objectives of standard costing.

(03 Marks)

B. A company manufactures a product in one of its factories and sells to local market. The company uses the standard absorption costing system and absorbs overheads based on direct labour hours. Budgeted production and sales for the month are 3,000 units. Standard selling price per unit is Rs. 4,000 per unit. Standard cost card per unit of the product is as follows.

	Rs.
Direct material: 10 kgs at Rs. 120 per kg	1,200
Direct labour: 05 hours at Rs. 140 per hour	700
Variable overhead: 05 hours at Rs. 60 per hour	300
Total variable cost per unit	2,200

The actual information recorded for the month of May 2023 are as follows.

Production and sales	2,800 units
Selling price per unit	Rs. 4,500
Direct material	30,800 kg at Rs. 130 per kg
Direct labour	12,600 hours at Rs. 150 per hour
Variable overheads cost	Rs.780,000

Required:

i. Calculate the following variances for the month of May 2023.
Direct material price variance, direct material usage variance, direct labour rate variance, direct labour efficiency variance, variable overhead expenditure variance, variable overhead efficiency variance, sales price margin variance and sales volume margin variance.

ii. Prepare an operating statement reconciling the budgeted contribution with the actual contribution.

(09 Marks)

(Total Marks 12)

Question No. 05

A. "A budget is quantitative expression respect of certain period presenting before the commencement of such period. Budgeting is a method of controlling cost of an organization and budgeting serves a number of advantages". Briefly explain two advantages of the budgeting.

(02 Marks)

B. A company forecasted the following sales for the next six months in the year 2023. (In Rs. million)

May	*June*	*July*	*August*	*September*	*October*
440	480	480	400	440	400

The following additional information also available.

1. 50% of the sales are on cash basis and balance 50% of the sales are on credit cards. The Company has to pay 5% commission on credit card sales to the credit card company and 5% cash discount allow for the cash sales. Cash is collected for the credit card sales in the following month.

2. Rs.35 million monthly fixed overhead cost is paid with one-month arrears and which includes monthly depreciation of Rs. 10 million.

3. Salaries include Rs. 10 million monthly fixed salaries and variable salaries 10% on total sales are paid in the month which is incurred.

4. Cost of sales is 40% on sales and a period of one month is given for the settlements of creditors.

5. 50% of the next month's sales will be maintained in the closing stocks of each month.

6. The following is the capital budget plan.
   i. Acquisition of property, plant and equipment are Rs. 50 million in July and Rs. 20 million in September.
   ii. Disposal of property, plant and equipment is Rs. 60 million in August.
   iii. Invest Rs. 300 million in a new project in the month of September.

7. The Company should be paid Rs.12 million income taxes in August.

8. Opening cash balance of the month of July is Rs. 40 million.

Required:
Prepare the cash budget for the period of July to September 2023 on a monthly basis.

(10 Marks)
(Total Marks 12)

Question No. 06

A. "Contribution is important to the managers as it is provided the required information to the managerial decision making."

Briefly explain the above statement with examples.

(02 Marks)

B. A company produces product "CBS" and sells at Rs. 1,600 per each unit and the variable cost per unit is given below.

	Rs.
Direct material cost	500
Direct labour cost	300
Variable overhead cost	200
Total variable cost per unit	1,000

It is expected to increase the direct material cost by 25% and direct labour cost by 20% in the next year. Present annual production capacity is 2,000 units and the present annual fixed cost is Rs.600, 000.

Required:

i. Calculate the increase in selling price per unit required in the next year, to maintain the present profit volume ratio in the same manner.

ii. Calculate the sales volume required to earn the present net profit if the fixed cost is increased by Rs. 119,700 in the next year while keeping the selling price in the same manner (Rs. 1,600).

iii. Calculate the total profit in the next year, considering the fixed cost is increased by Rs. 180,000 and the profit volume ratio is remaining unchanged.

(06 Marks)

C. A company manufactures and sells two products "Red" and "Blue". The Company has forecasted the following information for the month of May 2023.

	Red	***Blue***
Selling price per unit (Rs.)	600	400
Variable cost per unit (Rs.)	300	200
Total fixed costs for the month (Rs.)		4.5 million

The Company is expected to sell one unit of product Red for every three units of product Blue.

Required:

i. Calculate the weighted average profit volume ratio (Combined PV ratio) based on the expected sales proportion.
ii. Calculate the Break Even Point of the company and each product for the month of May 2023 in units.

(04 Marks)
(Total Marks 12)

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