EASTERN UNIVERSITY, SRI LANKA

Faculty of Commerce and Management

Part II Examination in Bachelor of Business Administration 1999/ 2000

(April 2006) (EXTERNAL)

BBA 301 Managerial Accounting

Answer all five (5) questions Time: 03 hours

Q1. (a) Explain the difference between the contribution margin per unit and the contribution margin ratio.

(03 marks)

(b) List out three major limitations of break-even analysis.

(03 marks)

(c) A company manufactures a special product. The following information indicates some future changes in its cost structure.

An increase in labour wage of 12% from next year.

The company also anticipates an increase in the price of raw material by 20% of its imported component which is 60% of the total raw material cost.

Variable overhead is expected to increase by 8%

Their plant capacity is 30,000 units per annum. Your are also given the following information.

		Rs. per unit
Current selling price		2,000
Variable cost		
	Material	750
	Labour	300
	Overhead	150

The fixed cost of the company is Rs. 3,200,000.00.

A budgeted annual sale for next year is 25,000 units, which is the same as this year.

Your are required to calculated:

(i) The increase in selling price necessary to maintain the existing contribution/sales ratio and the break-even point.

(06 marks)

(ii) The new sales volume required to maintain the same net profit

(04 marks)

(iii) If there is an outside order for 5,000 units of this special product at Rs. 1,500 per unit to be produced next year what will be your advice? If this order is undertaken, what will be the profit on this order?

(04 marks)

(Total 20 marks)

The standard cost of producing 100 units of a product "P" using two materials A_1 and A_2 is given below.

Material	**Quantity**	**Standard Price**
A_1	60 kg	Rs. 10 per kg
A_2	50 kg	Rs. 12 per kg

Direct Wages	**No. of Hours**	**Rate per Hour**
Skilled	40	Rs. 15 per
Semi-skilled	30	Rs. 10 per
Unskilled	20	Rs. 08 per

Overhead is absorbed on standard Direct Labour at Rs.14 per hour. Due to certain reasons, the standard materials has been revised as below:

Material	**Quantity**
A_1	65 kg
A_2	45 kg

During the period, the company achieved 100 units of the product "P" and the actual expenses incurred are given below:

Direct Wages	**No. of Hours**	**Rate**
Skilled	40	Rs. 16 per hour
Semi-skilled	28	Rs. 12 per hour
Unskilled	25	Rs. 09 per hour

Actual fixed overhead incurred was Rs. 1,400.
You are required to calculate all the variances relating to material, labour and overhead.

(Total 20 marks)

The following information relates to process 2 of a three stage production process for accounting period 10.

Material input from process 1	5,000 units at Rs. 1.85 per unit
Material added	Rs. 2,245
Direct labour	Rs. 4,320
Overheads	Rs. 3,090
Number of units scrapped:	800 units

Opening stock was 600 units, complete as to:

		Cost in Rs.
Material from process 1	100%	945
Added material	60%	180
Labour	30%	405
Overhead	30%	135
		Rs.1,665

Work in progress at the end of the period: 1,000 units complete as to

Material from process 1	100%
Material added	75%
Labour	40%
Overhead	20%

Normal loss is taken at 10% of input during the period. Scrap value of any loss is 50 cents per unit. You are required to prepare the process accounts and the profit and lost account.

(Total 20 marks)

(a) Why do we need standard costs?

(03 marks)

(b) Briefly explain the meaning of 'allocation', 'apportionment' and 'absorption' in relation to overheads.

(04 marks)

(c) What is the important aim of budgetary control?

(03 marks)

(d) A production company operates 3 production cost centers and 2 service cost centers in its production division. Costs allocated to these division for the month of April are as follows:

Production Cost Centre	Costs allocated (Rs)
A	40,000.00
B	50,000.00
C	71,000.00
Service Cost Centers	
S1	28,000.00
S2	19,000.00

It has been decided to apportion costs of the service cost centers as follows

Cost Centers	A	B	C	S1	S2
S1	-	*50*	*30*	-	*20*
S2	*50*	*30*	*15*	*05*	-

Calculate the total production overhead which should be charged to each of the production cost centers using the continuous allotment methods.

(10 marks)

(Total 20 marks)

(a) "The Sales Budget is the foundation of all other budgets" Do you agree this statement? Explain.

(03 Marks)

(b) Using the information given below, to prepare budgets for the month of January for

Production quantities;
Material purchases in quantity and value, including total value;
Sales in quantity and value, including total value;
Material usage in quantities;

		Product	Price each	Quantity
Sales:		P	110	1124
		Q	87	1445
		R	89	2345
		W	75	1365
Materials used in the company's products:				
Material	**X1**	**X2**	**Y1**	**Y2**
Unit cost	Rs.4/=	Rs.6/=	Rs.7/=	Rs.8/=
Quantities used in:	**X1 (units)**	**X2 (units)**	**Y1 (units)**	**Y2 (units)**
Product P	4	2	1	2
Product Q	3	3	5	3
Product R	2	1	6	4
Product W	5	4	2	1
Finished stocks:	**Product P (units)**	**Product Q (units)**	**Product R (units)**	**Product W (units)**
Quantities				
1st January	1000	1500	600	700
31 st January	1200	1550	400	550
Material stocks:	**X1 (units)**	**X2 (units)**	**Y1 (units)**	**Y2 (units)**
1st January	26000	20000	12000	13000
31 st January	31200	24000	14400	12500

(17 Marks)

(Total 20 marks)