

THE OPEN UNIVERSITY OF SRI LANKA
FACULTY OF MANAGEMENT STUDIES
BACHELOR OF MANAGEMENT STUDIES HONOURS

061



AFU4571 – COST AND MANAGEMENT ACCOUNTING
CONTINUOUS ASSESSMENT TEST – 2023 / 2024
DURATION – TWO (02) HOURS

DATE: 24th March 2024

TIME: 09.30 A.M. – 11.30 A.M

Index Number:

Part A- Answer Sheet

- Write the letter of the correct answer out of four answers given for each question in Part A.
- Marks will not be awarded for writing more than one answer for each question.
- Attach this answer sheet to your answer book.

Question Number	Answer
01	
02	
03	
04	
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INSTRUCTIONS:

- Answer all the questions in Part A and Part B.
 - For the questions in part A, write the letter of the correct answer on the sheet provided.
 - For the questions in part B, start each answer from a new page.
 - Marks have been mentioned at the end of each question.
 - All the workings should be shown clearly.
 - Use of a non-programmable calculator is allowed.
 - Number of Pages 08
-

PART A

01. Which of the following statements is true relating to the time period for which financial accounting and cost/management accounting information is prepared?

- A. Financial statements are prepared more frequently than cost/management accounting reports.
- B. Cost/management accounting reports are always prepared for a full year.
- C. There is no set time frame for cost/management accounting information, it depends on management needs.
- D. Financial and cost/management accounting information are prepared for the same timeframe.

02. What is the primary purpose of cost accounting information?

- A. To provide information for overall decision-making within an organization.
- B. To comply with legal requirements and prepare financial statements.
- C. To identify and control the costs associated with products, services, or processes.
- D. To analyze historical financial data and trends.

03. How does cost accounting information contribute to management accounting?

- A. Cost accounting provides a historical record of past financial performance.
- B. Cost accounting data is used to create budgets and forecasts for future activities.
- C. Cost accounting information is not directly relevant to management accounting.
- D. Cost accounting serves no purpose beyond basic cost recording.

04. Which of the following is not a major element of cost accounting?

- A. Prime Cost
- B. Direct Cost
- C. Sunk Cost
- D. Indirect Cost

05. What is the primary objective of the EOQ model in inventory management.

- A. Minimize the total number of orders placed.
- B. Ensure uninterrupted supply and avoid stockouts.
- C. Minimize the total annual inventory cost (ordering cost + holding cost).
- D. Maximize the storage space utilization in the warehouse.

06. Which of the following statement/statements correctly state the advantages of the Weighted Average Cost (WAC) method in valuing material issues?

- i. Reduces fluctuations in price compared to FIFO and LIFO.
- ii. Represents the current market price of the materials.
- iii. Enables easier cost comparison between different jobs.
- iv. Simpler to calculate compared to other methods.

- A. Answer **i** only.
- B. Answer **ii** and **iv** only.
- C. Answer **i** and **iii** only.
- D. Above **all**.

07. Which of the following statements is true about the Periodic inventory system?

- A. Inventory is continuously recorded using computers.
- B. This method allows for identifying inventory value at any time.
- C. Production needs to be stopped to count the closing inventory.
- D. This method is preferred by large organizations with a high volume of items.

08. Which of the following items is not a component of labour cost?

- A. Cost of salary and wages
- B. Travel allowances
- C. Cost of machinery
- D. Recruitment cost

09. What are the two main methods of recording employee time for calculating labour costs?

- A. Timesheets and job tickets
- B. Piecework tickets and overtime sheets
- C. Attendance cards and salary slips
- D. Performance reviews and bonus calculations

10. Which of the following is not an indirect cost?

- A. Rent Expenses
- B. Direct materials cost
- C. Indirect labor cost
- D. Insurance Expenses

11. What are the four stages involved in finding the Overhead Absorption Rate (OAR)?

- A. Assembling overhead cost, apportionment, allocation, absorption
- B. Identification, calculation, estimation, distribution
- C. Primary costing, secondary costing, finalization, reporting
- D. Budgeting, forecasting, monitoring, controlling

12. Which of the following bases is not appropriate for primary apportionment of overhead costs?

- A. Machine value
- B. Number of employees
- C. Direct labour hours
- D. Total sales

13. Why is the cost of issuing materials from the store not apportioned to the Maintenance department?
- A. Maintenance doesn't use any materials.
 - B. The cost is already included in the direct material cost.
 - C. The store is a separate department with its own cost allocation.
 - D. Maintenance is a service department that doesn't directly produce goods.
14. When calculating the total labor cost per unit produced, which of the following should not be included?
- A. Wages paid to production line workers
 - B. Salary of the factory manager
 - C. Employee benefits associated with production workers
 - D. Cost of office supplies used by the human resources department
15. Which of the following is not a feature of the Absorption Costing System?
- A. It accumulates production overheads into cost centers.
 - B. It allocates and apports overheads into cost centers.
 - C. It considers only variable production overheads.
 - D. It re-apports service center overheads to production centers.
16. What does the term "Cost Unit" refer to?
- A. A department within a manufacturing organization
 - B. A specific type of machine used in production
 - C. A unit of product or service for which cost is calculated
 - D. A particular raw material used in manufacturing
17. What are the two main reasons for costing?
- A. Regulatory compliance and product design
 - B. Inventory valuation and marketing strategies
 - C. Internal profit measurement and decision-making
 - D. Cost reduction and quality control

18. What is a key difference between traditional absorption costing and Activity-Based Costing (ABC)?
- A. Traditional absorption costing focuses on direct materials, while ABC focuses on indirect costs.
 - B. Traditional absorption costing allocates overhead based on a single factor, while ABC uses multiple cost drivers.
 - C. Traditional absorption costing is simpler to implement, while ABC requires more detailed data.
 - D. All of the above
19. What is the benefit of implementing Activity-Based Costing (ABC)?
- A. It simplifies cost allocation and reduces data collection needs.
 - B. It provides more accurate cost information for product pricing and decision making.
 - C. It eliminates the need to track activity drivers and cost pools.
 - D. It is less expensive to implement compared to traditional costing systems.
20. What is a limitation of implementing Activity-Based Costing (ABC)?
- A. It offers superior cost allocation compared to traditional costing methods.
 - B. It can be complex and resource-intensive to set up and maintain.
 - C. It is particularly suited for businesses with simple cost structures.
 - D. It perfectly aligns with external reporting requirements.
21. In the context of ABC, what is a cost driver?
- A. A direct cost associated with production, such as materials or labor.
 - B. A cost pool that accumulates indirect costs related to a specific activity.
 - C. A factor that influences the cost of an activity within an organization.
 - D. The total cost of all activities undertaken by the business
22. What is the PRIMARY purpose of maintaining cost ledgers?
- A. To comply with tax regulations
 - B. To track and manage business expenses
 - C. To generate financial statements
 - D. To facilitate external audits

23. What is the main purpose of reconciling cost and financial accounts?

- A. To simplify cost allocation procedures
- B. To ensure accurate financial reporting
- C. To reduce the workload of accounting personnel
- D. To comply with internal audit requirements

24. Cost-Volume-Profit (CVP) analysis assumes that:

- A. There are multiple products with varying sales mixes.
- B. Fixed costs change depending on the output level.
- C. Selling price and variable cost per unit remain constant.
- D. Production and sales quantities are always different.

25. The contribution margin ratio represents:

- A. The percentage of fixed costs covered by sales.
- B. The difference between selling price and variable cost per unit, expressed as a percentage of sales.
- C. The total cost per unit produced.
- D. The breakeven point in terms of sales units.

26. A company's breakeven point is 10,000 units. This means:

- A. They will always make a profit if they sell more than 10,000 units.
- B. They will incur a loss if they sell less than 10,000 units.
- C. Their total costs are equal to their total revenue at 10,000 units.
- D. Both A and C are correct.

27. A product is sold for Rs. 350, and the contribution margin ratio is 60%. What is the variable cost per unit of the product?

- A. Rs. 90/-
- B. Rs. 210/-
- C. Rs. 310/-
- D. Rs. 140/-

28. A company wants to determine the number of units it needs to sell to achieve a target profit of Rs 400,000. The contribution per unit is Rs 25. What is the required sales quantity to achieve the target profit?
- A. 16,000 units
 - B. 64,000 units
 - C. 10,000 units
 - D. 40,000 units
29. A company has a fixed cost of Rs. 1,800,000 and expects to earn a profit of Rs. 600,000 in the next year. The variable cost per unit is Rs. 12, and the product will be sold for Rs. 28. What is the minimum number of units the company needs to sell to achieve its profit target?
- A. 120,000 units
 - B. 150,000 units
 - C. 180,000 units
 - D. 210,000 units
30. A company experiences a decrease in selling price due to competition. To maintain profitability, the company needs to revise its sales target. They currently have a contribution per unit of Rs. 18 and fixed costs of Rs. 2,700,000. They aim for a profit of Rs. 900,000 next year. What is the minimum sales quantity required to achieve this target profit with the reduced selling price?
- A. 100,000 units
 - B. 150,000 units
 - C. 175,000 units
 - D. 200,000 units

(02 Marks X 30 = 60 Marks)

PART B

Question 01

- i. The following information was extracted from the books of accounts of a company relating to product X.

Annual demand	- 80,000 units
Cost of placing an order	- Rs. 50/-
Storage and Carrying cost	- 80% of cost per unit
Cost per unit	- Rs. 40/-

Based on the above, calculate the Economic Order Quantity (EOQ) and optimum number of orders per year.

(10 Marks)

i i . The following information was extracted with reference to Job #102 of TVS (Pvt) Ltd.

Direct raw material - 5,000 Kg @ Rs. 25/- per Kg

Direct labour - 200 hours @ Rs. 500/- per hour

Production overhead - 75% of direct labour cost

The company expects to keep 20% profit margin.

Calculate the price to be quote on Job #102.

(10 Marks)

Question 02

AB PLC currently sells a product for Rs. 30/-, and incurs variable costs of Rs. 12/- per unit for producing and selling. Annual fixed costs are amounting to Rs. 2,700,000/-. The company earned a profit of Rs. 450,000/- during the last financial year.

You are required to,

i. Calculate the breakeven point in units and current sales level.

(04 Marks)

ii. In response to the competition, the company is considering, reducing the selling price to Rs. 27/- in the next year, which would lead to increase in demand for the product.

Determine the breakeven sales quantity and the minimum sales quantity required for next year's profit target of Rs. 600,000/-.

(08 Marks)

iii. The company is considering, expanding its production capacity, which would increase its annual fixed costs to Rs. 3,500,000/-, while reducing the variable costs per unit to Rs. 10/-.

Determine the breakeven sales quantity and the minimum sales quantity required for the next year's profit target of Rs. 600,000/-. Assume that the selling price remains unchanged.

(08 Marks)

(20 Marks)

(Total Marks 100)

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