

**THE OPEN UNIVERSITY OF SRI LANKA
FACULTY OF MANAGEMENT STUDIES**



**BACHELOR OF MANAGEMENT STUDIES HONOURS
BMSHONS IN ACCOUNTING AND FINANCE
BMSHONS IN HUMAN RESOURCE MANAGEMENT
BMSHONS IN MARKETING MANAGEMENT**

**AFU4401 COST AND MANAGEMENT ACCOUNTING
FINAL EXAMINATION – 2025/2026
DURATION – THREE (03) HOURS**

DATE: 04th July 2026

TOTAL: 100 Marks

TIME: 01.30 pm – 04.30 pm

INSTRUCTIONS:

- Answer only four (04) questions.
- Marks have been mentioned at the end of each question.
- All the workings should be shown clearly.
- Start each answer from a new page.
- Use of non-programmable calculators is allowed.
- Total number of Questions 05 and Total number of pages 06

Question No. 01

(a) You are given the following details of an inventory item “Z” used by Nuwan Enterprise in its production process.

- Consumption per month - Maximum 2,000 units and minimum 400 units.
- The lead time - Maximum 12 months and minimum 3 months.
- The order quantity at a time is 5,000 units.

You are required to calculate the following stock levels in relation to the inventory item “Z”.

- i. Re-order level
- ii. Maximum stock level
- iii. Minimum stock level
- iv. Average stock level

(2.5 x 4 = 10 Marks)

(b) The following details were extracted from Blueberry (Pvt) Ltd, a perfume manufacturing company, relating to luxury perfumes.

The annual demand is 70,000 units. The cost of ordering is Rs. 70/- per order, and the storage and holding cost is 20% of the unit cost. The cost per unit is Rs. 100/-.

Using the above details, you are required to calculate,

- i. Economic order quantity
- ii. The optimum number of orders per year

(2.5 x 2 = 5 Marks)

- (c) Moonleaf (Pvt) Ltd is a small-scale company that manufactures natural self-care and wellness products. Recently, the company introduced "Moonleaf Lavender Scented Candle," handcrafted aromatherapy candle designed to promote relaxation and well-being. The following cost details are related to the production in the month of July 2026.

Cost Description	Value (Rs.)
Opening inventory (01.07.2026)	300,000
Purchased raw materials (herbs & packaging)	1,500,000
Rent of production facility	50,000
Essential oils & fragrances	475,000
Salary to employees	400,000
Electricity	25,000
Supervisor charges	250,000
Machine maintenance	35,000
Miscellaneous expenses	12,000
Machine depreciation (for this order)	15,000
Closing inventory (31.07.2026)	155,000

The company sets a 20% profit margin on the total cost of production. During July, 2,500 units of Moonleaf Lavender Scented Candle were produced.

You are required to,

- i. Determine the Total Cost and Unit Cost of a Moonleaf Lavender Scented Candle.
(05 Marks)
 - ii. Calculate the Selling Price per unit.
(05 Marks)
- (Total 25 Marks)

Question No. 02

- (a) Sweet Crumbs (Pvt) Ltd, a bakery products manufacturer, produces handmade cookies and sells them at a price of Rs. 1,000/-per unit. The costs of production are as follows.

Cost	Value (Rs.)
Direct material per unit	250/-
Direct labor per unit	200/-
Other direct costs per unit	75/-
Fixed cost per month	5,600,000/-
Forecasted sales per month	40,000 units

You are required to,

- Calculate the contribution per unit.
(02 Marks)
- Compute the contribution to sales (C/S) ratio.
(03 Marks)
- Determine the breakeven point in units and value.
(04 Marks)
- Calculate the Margin of Safety in units.
(03 Marks)
- If the selling price per unit increases by Rs. 115/-, what is the new breakeven point in units?
(03 Marks)

(b) The following cost information relates to the factory of BrewCraft Coffee (Pvt) Ltd. for the month of July 2026. It has three production cost centers and two service cost centers.

- Building Rent Rs. 120,000
- Rates Rs. 15,000
- Electricity - for lights Rs. 20,000 & for machines Rs. 60,000
- Machine depreciation Rs. 60,000
- Machine insurance Rs. 12,000
- Supervision expense Rs. 40,000
- Canteen expenses Rs. 24,000

Description	Total	Production cost centers			Service cost centers	
		A	B	C	Store	Maintain
Floor space (Square feet)	3,000	900	700	600	400	400
Machine value Rs.	600,000	200,000	150,000	150,000	40,000	60,000
Number of employees	24	6	8	4	4	2
Machine capacity (H.P)	90	25	23	20	10	12

You are required to prepare the overhead apportionment sheet based on the above information.

(10 Marks)

(Total 25 Marks)

Question No. 03

(a) A digital marketing agency named BrightWave Solutions has been asked to undertake an urgent campaign for a client, which requires the following resources.

- A digital marketing specialist who is currently engaged in client projects at a rate of Rs. 3,000 per hour is required to work on this campaign for 30 hours. Since no other employee is available to take over the ongoing work, the agency would lose a contribution of Rs. 800 per hour. Due to the urgency of the campaign, the specialist will be paid at a rate of Rs. 2,500 per hour.
- The campaign requires 7 hours of high-performance graphic rendering server time, which the agency normally rents out to external users at a rate of Rs. 1,000 per hour. The server is currently utilized 24 hours a day, 7 days a week.

You are required to determine the relevant cost of the job.

(10 Marks)

(b) ActivePro Industries PLC is a company engaged in manufacturing sports equipment. The company has received a special order valued at Rs. 2,800,000 for a batch of customized training kits. The following resources are required to complete the order.

- The raw material requirement (fabric, protective padding, accessories and packaging materials) amounts to Rs. 850,000.
- The existing workforce is fully occupied with the company's regular operations, which currently earn a contribution of Rs. 800 per labour hour. The special order requires 600 labour hours. If the order is accepted, labour time used for regular production will have to be diverted to complete the order. Workers are currently paid at the rate of Rs. 550 per hour.
- Variable manufacturing overhead is charged at Rs. 400 per labour hour.
- Fixed overhead is absorbed at Rs. 450 per labour hour. However, the company's general overhead expenses will increase by Rs. 300,000 as a result of undertaking the special order.

You are required to assess whether the special order should be undertaken.

(15 Marks)

(Total 25 Marks)

Question No. 04

- (a) MilkyWay Dairies PLC produces two joint products "Cream" and "Skim Milk" from the same processing operation. Joint processing costs of Rs. 320,000 are incurred up to the split-off point, at which 140,000 units of Cream and 90,000 units of Skim Milk are produced. The selling prices at the split-off point are Rs. 3.00 per unit of Cream and Rs. 2.50 per unit of Skim Milk. The units of Cream can be processed further to produce 55,000 units of "Premium Butter" at an additional fixed cost of Rs. 45,000 and a variable cost of Rs. 0.40 per unit of input. The selling price of Premium Butter is Rs. 9.00 per unit.

Should the company produce and sell 'Cream' or 'Premium Butter'?

(10 Marks)

- (b) The following information represents forecasts of certain operating activities of CeyWood Furnishings PLC for the months of April, May, June and July 2026.

	April	May	June	July
Cash sales (Rs.)	40,500	30,200	38,000	48,800
Credit sales (Rs.)	50,000	53,500	77,200	82,900

- The cash receipts for the goods sold on credit are predicted to be received 40% in the month of the sale and the balance 60% in the following month.
- Inventory purchases are estimated to be on average 50% of the total sales. Of these purchases, 60% is paid for in the month of the purchase, with the remainder paid in the following month.
- Operating expenses are paid in the month they are incurred. Monthly expenses include office rent of Rs. 12,500, salaries of Rs. 15,000 and utility expenses of Rs. 5,000.
- The cash balance as at the beginning of May is Rs. 8,000.

You are required to,

Prepare the cash budget for the months of May and June 2026.

(15 Marks)

(Total 25 Marks)

Question No. 05

- (a) Velvet Scoop PLC manufactures three products, Vanilla Ice Cream, Chocolate Ice Cream, and Strawberry Ice Cream. Currently, Vanilla Ice Cream and Chocolate Ice Cream are profitable while Strawberry Ice Cream is incurring losses as shown below. The present net annual income from these products is as follows

	Vanilla Rs.	Strawberry Rs.	Chocolate Rs.	Total Rs.
Sales	70,000	50,000	80,000	200,000
Variable Cost	20,000	45,000	30,000	95,000
Fixed Cost	20,000	15,000	25,000	60,000
Profit/Loss	30,000	(10,000)	25,000	45,000

The company is now considering whether the production of Strawberry Ice Cream should be continued or not.

You are required to,

- i. Decide whether the production of Strawberry Ice Cream should be discontinued.

(15 Marks)

- ii. Assume, however, it was possible to use the resources realized by stopping production of Strawberry Ice Cream for producing a new item, Strawberry Supreme, which would sell for Rs. 60,000 and incur variable costs of Rs 30,000 and additional fixed costs of Rs. 15,000. Decide whether Strawberry Supreme product should be manufactured instead of Strawberry Ice Cream.

(10 Marks)

(Total 25 Marks)

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