

CHAPTER 3: Introduction to Cost Accounting & Elements of Cost-Material Cost and Inventory Valuations

PART A: STRUCTURED QUESTIONS

1. Describe the material recording procedures.
2. Discuss **two (2)** internal control of stock management.

Part B: Practical Exercises

1. NU Ltd's Chief Executive believes the company is holding excessive materials and has asked for the Management Accountant to carry out an investigation.

Information on the two material items is given below:

Material item	Purchase price per unit (RM)	Administration cost per order (RM)	Monthly demand (Units)	Holding cost per year % of purchase price
G	300	90	16,000	13.34
H	26	29	2,900	9.00

The company's material ordering policy is based on the Economic Order Quantity (EOQ). You are required to calculate EOQ and the number of orders per year that the company will place for item G and H.

2. Below are the forecasted consumption figures for Wright Ltd in respect of material MX13.

Months	Units	Months	Units
January	1,000	July	1,500
February	1,000	August	1,500
March	1,400	September	1,100
April	1,400	October	1,100
May	1,500	November	1,000
June	1,500	December	1,000

Reorder quantity (EOQ): 4,000 units

Delivery period: Maximum 4 months; Minimum 2 months

You are required to compute the following for the year:

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a) Reorder level	
b) Maximum material level	
c) Minimum material level	
d) Average material level	

3. The following information has been extracted from the stores ledger account of ABC Ltd for the year 2016:

Date	RECEIPTS			ISSUES		
	Quantity	Unit price	Amount	Quantity	Unit price	Amount
Jan	Kg	RM	RM	Kg	RM	RM
1	750	3.00				
4	1,000	3.05				
5				550		1,650
8				400		1,210
10				500		1,525
15	1,200	3.20				
18				450		1,395
22	2,500	3.25				

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b) Calculate the gross profit for each of the methods if the unit selling price is RM15.