

Test - 1

Time Allowed : 35 Minutes	TOPIC: MATERIALS COST	Total Marks :20 Marks
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Q.1: Explain centralized and decentralized purchasing of materials. Which system is superior?

(5 Marks)

Q.2: A company supplies plastic crockery to fast food restaurants in a metropolitan city. One of its products is a special bowl, disposable after initial use, for serving soups to its customers. The demand for plastic bowl has been forecasted at a fairly steady rate of 40,000 packs every year. The Company purchases the bowl direct from manufacturer at ₹ 40 per pack within a three days lead time.

The ordering and related cost is ₹ 8 per order. The Storage Cost is 10% per annum of purchase price.

You are **required** to: -

- (a) Calculate Economic Order Quantity.
- (b) Calculate number of orders needed every year.
- (c) Calculate the total cost of ordering and storage for the year.
- (d) Determine when should the next order to be placed (Assuming that the Company does not maintain a safety stock and that the present inventory level is 333 packs with a year of 360 working days).

(5 Marks)

Q.3: Mr. Arun commence manufacture of toy trains on 1st January, 2009. His trading account for the first year is as follows:

Particulars	Units	Amount (₹)	Amount (₹)
Sales	1,00,000		4,50,00,000
Less: Cost of Sales:			
Opening stock of raw materials		NIL	
Add: Purchases		4,50,00,000	
Less: Closing Stock		(45,00,000)	
Raw material consumed		4,05,00,000	
Add: Labor		1,44,00,000	
Add: Production overhead		72,00,000	
Cost of production	1,60,000	6,21,00,000	
Less: closing stock	(60,000)	(2,16,00,000)	(4,05,00,000)
Gross profit	1,00,000		45,00,000

Additional information:

1. Stocks of both raw materials and finished goods have increased uniformly over the year;
2. The raw materials content of finished goods is ₹ 225 per unit;
3. Mr. Arun was ill during August 2009 when he received an order for 12,000 units which was held up by stock shortage and were subsequently cancelled. He had further orders for 8,000 units on his books at the year end.

(i) Calculate the following ratios:

(1) Inventory turnover for raw material (2) Inventory turnover for finished goods;

(3) Input-output ratio for raw materials; (4) Stock-out ratio,

(ii) Comment briefly on the above ratios.

(10 Marks)