PG – 699

III Semester M.Com. Degree Examination, January 2018
(CBCS)
COMMERCE
Paper – 3.3AT : Accounting for Managerial Decisions

Time : 3 Hours Max. Marks : 70

SECTION – A

1. Answer **any seven** of the following sub-questions. **Each** sub-questions carries **two** marks. **(7x2=14)**

   a) What are relevant costs ?

   b) List four major uses of standard costing.

   c) What is meant by overhead variance ?

   d) Cost do not have an intrinsic behavioural pattern. Explain this statement.

   e) What is proprietary audit and efficiency audit ?

   f) What do you understand by performance budgeting ?

   g) What is meant by 'key factor' ?

   h) Define

      i) Expense centre

      ii) Profit centre.

   i) How to improve the P/V ratio ?

   j) Importance of Cost Control and Cost Reduction.

SECTION – B

Answer **any four** questions. **Each** question carries **five** marks. **(4x5=20)**

2. Describe the steps in the decision-making process in which steps does the management accountant play a major role.

P.T.O.

3. A company manufactures and markets three products A, B and C. All the three products are made from the same set of machines. Production is limited by machine capacity. From data given below indicate priorities for products A, B, and C with a view to maximizing profits :

Particulars	Product A(Rs.)	Product B(Rs.)	Product C(Rs.)
Raw material cost per unit	2.25	3.25	4.25
Direct labour cost per unit	0.50	0.50	0.50
Other variable cost per unit	0.30	0.45	0.71
Selling price per unit	5.00	6.00	7.00
Standard machine time required per unit	39mts	20mts	28mts

In the following year, the company faces extreme shortage of raw materials. It is noted that 3 kgs, 4 kgs and 5 kgs of raw materials are required to produce one unit of A, B and C respectively. How would products priorities change ?

4. The sales turnover and profit during two periods were as follows :

Year	Sales(Rs.)	Profit(Rs.)
2015	20 lakh	2 lakh
2016	30 lakh	4 lakh

Calculate :

i) P/V Ratio.

ii) The sales required to earn a profit of Rs. 5 lakh.

iii) The profit when sales are Rs. 10 lakh.

5. The following is a control report prepared by a cost account out of Department P in a factory :

Overhead directly assigned to Department P :

Indirect materials (based on actual requisitions)	1,000
Indirect Labour (job tickets)	900

Overtime charges	100	
Depreciation on equipment	500	2,500
Allocated factory overhead (38% of factory space)		4,300
Allocated overhead of Repair Shop (62% of repairs shop done for Department P)		1,200
Allocated office and Administration overhead (on an agreed basis)		5,000
Total Department Expenses		**13,000**

Revise the report treating Department P as a Responsibility Centre.

6. What is Inter-firm comparison ? Explain its advantages.
7. Write short notes on 'Zero Base Budgeting'.

SECTION – C

Answer **any three** questions. **Each** question carries **twelve** marks. **(3x12=36)**

8. Why is the evaluation of short-term pricing and product mix decisions different from the evaluation of long-term pricing and product mix decisions ?

9. Spares Ltd. produces spare parts X for cars. The company has an annual production capacity of 1,80,000 units of X. However, the actual production is carried out according to the volume of orders received. For the next year, the company has received an order for a value of Rs. 64,00,000. To meet the requirements of the order, the company has to work at 70% capacity for the first four months, 80% capacity for the next six months and 90% capacity for the remaining period of the year. Assume no opening or closing stocks.

   Following information is available :

   Material cost is Rs. 15 per unit

   Labour Rs. 12 per unit, subject to a minimum of Rs. 1,30,000 p.m.

   Variable overheads Rs. 5 per unit

   Fixed overheads Rs. 16,000 per month.

Semi-variable overheads Rs. 75,000 per annum incurred upto 70% average annual capacity utilization. Thereafter, it increases at Rs. 5,000 per annum for every 10% average annual capacity increase.

If the company targets a return of 27% on budgeted cost, should the order be accepted ? Justify your answer showing budgeted annual values for each element of cost for the next year.

10. Ramlal Works Ltd. has at the factory three production departments, machine shop, Fabrication and Assembly which are the responsibility of the shop superintendent. The shop superintendent and maintenance engine report to the works manager at the factory. The office administration, sales and publicity come under the sales manager who along with the works manager report to the managing director of the company. The following data relating to a month's performance are called out from the books of the company :

Particulars	Budget (Rs.)	Variance from Budget (Rs.)
Sales commission	800	50 A
Raw materials and components		
– Machine shop	900	20A
Publicity Expenses	1,100	100 A
Printing and Stationery	3,200	200 F
Travelling Expenses	4,000	200 A
Wages		
– Machine shop	800	10 F
– Fabrication	600	20 A
– Assembly	720	10 A

Material		
– Assembly	760	40 A
– Fabrication	460	10 A
Utilities		
– Machine shop	320	10 A
– Assembly	470	60 F
– Fabrication	560	30 F
– Maintenance	400	20 A
– Stores	210	40 F
– Planning	180	20 A
Shop superintendent's Office		
– Salaries and Expenses	1,100	22 F
Depreciation – factory	3,880	40 A
Works manager's office salaries and administration	3,810	40 A
General office salaries and administration	4,270	30 A
Managing Director's Salary and Administration	2,800	20 F

(A = Adverse; F = Favourable)

i) Treating the machine shop, fabrication and assembly as cost centres, prepare cost sheet for each centre with the help of this additional information :

The shop superintendent devotes his time amongst machine shop, fabrication and assembly in the ratio 4 : 3 : 4, other factory overheads are absorbed on the basis of direct labour in each cost centre.

Office Administration, Selling and Distribution Overheads are brone equally by the cost centres.

ii) Treating the machines shop, fabrication and assembly as Responsibility centres, prepare a Responsibility Accounting Report for the Shop Superintendent.

11. The managing director of A Pvt Ltd., asks for your assistance in arriving at a decision as to whether to continue manufacturing a component 'X' or to buy it from a outside supplier. The component 'X' is used in the finished products of the company. The following data are supplied :

i) The annual requirement of component 'X' is 10,000 units. The lowest quotation from an outside supplier is Rs. 8.00 per unit.

ii) The component 'X' is manufactured in the machine shop. If the component 'X' is bought out, certain machinery will be sold at its book value and the residual capacity of the machine shop will remain idle.

iii) The total expenses of the machine shop for the year ending 31-3-2017 are as follows :

During that year, the machine shop manufactured 10,000 units of 'X'.

Particulars	**Rs.**
Material	1,35,000
Direct Labour	1,00,000
Indirect Labour	40,000
Power and fuel	6,000
Repairs and maintenance	11,000
Rate, Taxes and Insurance	16,000
Depreciation	20,000
Other Overhead Expenses	29,600

iv) The following expenses of the machine shop apply to manufacturing of component 'X' :

Material	Rs. 35,000
Direct Labour	Rs. 56,000

Indirect Labour	Rs. 12,000
Power and fuel	Rs. 600
Repairs and maintenance	Rs. 1,000

The sale of machinery used for the manufacture of component 'X' would reduce Depreciation by Rs. 4,000 and Insurance by Rs. 2,000.

v) If the component 'X' is bought out, the following additional expenses would be incurred : Freight Rs. 1 per unit; Inspection Rs. 10,000 per annum.

You are required to prepare a report to the managing director showing the comparison of expenses of machine shop (a) when the component 'X' is made and (b) when bought out.

12. What are the requisites of performance budgeting ? And explain the steps in implementation of performance budgeting.

PG – 524

III Semester M.Com. Examination, December 2015
(CBCS Scheme)
COMMERCE
Paper – 3.3AT : Accounting for Managerial Decision

Time : 3 Hours Max. Marks : 70

Instruction : *Answer* ***all*** *Sections.*

SECTION – A

Answer **any seven** of the following sub-questions. **Each** sub-question carries **two** marks : **(7×2=14)**

1. a) What are sunk costs with reference to decision making ?
   b) State the applications of marginal costing technique.
   c) State the basic objectives of budgetary control.
   d) What are the methods for measuring divisional performance ?
   e) What is the significance of profit-volume ratio ?
   f) Differentiate Cost Indifference Point and Break-Even Point.
   g) How do responsibility centres differ from cost centres ?
   h) What is Uniform Cost Manual ?
   i) Define Performance Budget.
   j) What is PPBS ?

SECTION – B

Answer **any four** questions. **Each** question carries **five** marks. **(4×5=20)**

2. Write an explanatory note on the steps in the preparation of Master Budget.
3. Briefly explain the difficulties in the implementation of Responsibility Accounting.
4. Write a brief note on Zero Based Budgeting.
5. Write a brief note on procedure involved under inter-firm comparison.
6. Data extracted from the books of Zenith Mills for the month of October 2015 are as follows :
   a) Fixed expenses Rs. 40,000
   b) Break-even sales Rs. 1,00,000.

   Calculate : (a) P/V Ratio, (b) Profits when estimated sales are Rs. 2 lakhs, (c) Revised BEP in rupees if selling price is reduced by 20%, (d) Estimated sales to earn a profit of Rs. 40,000 after reduction in selling price by 20%.

P.T.O.

7. A manufacturer is thinking whether he should drop one item from his product line and replace it with another. Below are given his present cost and output data :

Product	Price (Rs.)	Variable Cost Per Unit (Rs.)	Percentage of Sales
Bookshelves	60	40	30%
Tables	100	60	20%
Beds	200	120	50%

Total fixed cost per year is Rs. 7,50,000 and sales last year were Rs. 25,00,000. The change under consideration consists in dropping the line of table in favour of cabinets. If this dropping and change is made the manufacturer forecasts the following cost output data :

Product	Price (Rs.)	Variable Cost Per Unit (Rs.)	Percentage of Sales
Bookshelves	60	40	50%
Cabinets	160	60	10%
Beds	200	120	40%

Total fixed cost per year is Rs. 7,50,000 and sales expected are Rs, 26,00,000. Should this proposal be accepted ? Comment.

SECTION – C

Answer **any three** questions. **Each** question carries **twelve** marks : **(3×12=36)**

8. Explain the objectives and benefits of uniform costing. Do you agree that by operating a system of uniform costing, individual manufacturers engaged in a particular industry derive greater advantages than a firm controlling a number of factories ?

9. What is budgetary control ? How are budget variations analysed ? Prepare a Variance Analysis Report for a production department.

10. As a part of its rural upliftment programme, the government has put under cultivation a farm of 96 hectares to grow tomatoes of four varieties : Royal Red, Golden Yellow, Juicy Crimson and Sunny Scarlet. Of the total, 68 hectares are suitable for all four varieties but the remaining 28 hectares are suitable for growing only Golden yellow and Juicy Crimson. Labour is available for all kinds of farm and is no constraint. The market requirement is that all four varieties of tomatoes must be produced with a minimum of 1,000 boxes of any one variety. The farmers engaged have decided that the area devoted to any crop should be in terms of complete hectares and not in fractions of a hectare. The other limitation is that not more than 20,000 boxes of any one variety should be produced. The following data are relevant :

	Varieties			
	Royal Red	**Golden Yellow**	**Juicy Crimson**	**Sunny Scarlet**
Annual Yield : Boxes per hectare	350	100	70	180
Costs :	Rs.	Rs.	Rs.	Rs.
Direct materials per hectare	476	216	196	312
Labour : Growing per hectare	896	608	371	528
Harvesting and pecking per box	3.60	3.28	4.40	5.20
Transport per box	5.20	5.20	4.00	9.60
Market price per box	15.38	15.87	18.38	22.27

Fixed overheads per annum :	₹
Growing	11,200
Harvesting	7,400
Transport	7,200
General Administration	10,200

Required :

i) Within the given constraints, the area to be cultivated with each variety of tomatoes if the largest total profit has to be earned.

ii) The amount of such profit in rupees.

iii) A nationalized bank has come forward to help in the improvement program of the 28 hectares in which only Golden Yellow and Juicy Crimson will grow, with a loan of Rs. 5,000 at a very normal interest of 6% per annum. When this improvement is carried out, there will be a saving of Rs. 1.25 per box in the harvesting cost of Golden Yellow and the 28 hectares will become suitable for growing Royal Red in addition to the existing Golden Yellow and Juicy Crimson varieties. Assuming that other constraints continue, find the maximum total profit that would be achieved when the improvement programme is carried out.

11. A company manufacturers a single product with a capacity of 1,50,000 units per annum. The summarized profitability statement for the year is as under :

Sales : 1,00,000 units @ Rs. 15 per unit		Rs. 15,00,000
Less : Cost of Sales :	Rs.	
Direct Materials	3,00,000	
Direct Labour	2,00,000	
Production overhead :		
Variable	60,000	
Fixed	3,00,000	
Administration Overhead (fixed)	1,50,000	
Selling and Distribution Overheads :		
Variable	90,000	
Fixed	1,50,000	12,50,000
Profit		2,50,000

You are required to evaluate the following options :

I) What will be the amount of sales required to earn a target profit of 25% on sales, if the packing is improved at a cost of Re. 1 per unit ?

II) There is an offer from a large retailer for purchasing 30,000 units per annum, subject to providing a packing with a different brand name at a cost of Rs. 2 per unit. However, in this case there will be no selling and distribution expenses. Also this will not, in any way, affect the company's existing business. What be the break-even price for this additional offer ?

III) If an expenditure of Rs. 3,00,000 is made on advertising the sales would increase from the present level of 1,00,000 units to 1,20,000 units at a price of Rs. 18 per unit, will that expenditure be justified ?

IV) If the selling price is reduced by Rs. 2 per unit, there will be 100% capacity utilization. Will the reduction in selling price be justified ?

12. The sales manager of XYZ Ltd., is judged by the total sales. Exceeding the sales budget is considered good performance. The sales budget and the cost data for the current year are shown below :

(₹ in '000s)

	Products			
	Silk	Cotton	Wool	Total
Sales Budget	450	900	1,650	3,000
Variable cost	225	405	495	1,125
Contribution	225	495	1,155	1,875
Actual sales	1,500	1,200	600	3,300

Actual prices were equal to budgeted prices and variable costs incurred were as budgeted per unit.

i) Did the sales manager perform well ?

ii) Suggest better performance measurement criterion to be used by the company.