

Question Paper Code : 1647

MBA (Common) (Semester-II) Examination, 2018

MANAGEMENT ACCOUNTING

[IMS-022]

Time : Three Hours]

[Maximum Marks:70

Note : Answer **five** questions in all. Question **No.1** is **compulsory**. Besides this, attempt **one** question from each unit.

1. Answer the following : [3x10=30]
- (a) What are the steps involved in Activity Based Costing ?
 - (b) What are the key considerations for taking a make or buy decision ?
 - (c) Distinguish between Fixed Cost and Variable Cost.
 - (d) What is the utility of Break - even Analysis ?
 - (e) What is Zero Base Budgeting ?
 - (f) What are the methods of Divisional Performance measurement ?

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(1)

[P.T.O.]

- (g) The sales and profits of a company during two periods were as follows :

| <u>Period</u> | <u>Sales</u> | <u>Profit</u> |
|---------------|--------------|---------------|
| I | Rs. 1,00,000 | Rs. 10,000 |
| II | Rs. 1,50,000 | Rs. 20,000 |

Find out the break-even point.

- (h) What are the characteristics of a sound budgeting system ?
- (i) Distinguish between Marginal costing and Absorption Costing.
- (j) Explain the Reverse Cost Method of apportioning joint cost.

UNIT-I

2. (a) "Management Accounting is an extension of Cost Accounting". Explain. [5]
- (b) "Cost may be classified in a variety of ways to suit the needs of the management". With reference to this explain the various classifications of cost. [5]

3. Two firms X Ltd and Y Ltd, sell identical products in the same market. The budgeted income statement for the year ending 31 March, 2017 are as follows : [10]

| | <u>X Ltd</u> | | <u>Y Ltd.</u> | |
|---------------|--------------|---------------|---------------|---------------|
| | Rs | Rs | Rs. | Rs |
| Sales | | 4,00,000 | | 4,00,000 |
| Less : | | | | |
| Variable cost | 3,20,000 | | 2,80,000 | |
| Fixed cost | 40,000 | -3,60,000 | 80,000 | 3,60,000 |
| Profit | | <u>40,000</u> | | <u>40,000</u> |

You are required to calculate :

- Break-even point for each firm.
- State what shall be the likely effect on the profits of the firms in the conditions of :
 - Increasing demand for the product.
 - Falling demand for the product

UNIT-II

4. Modern Manufacturers Ltd. have three production departments P₁, P₂ and P₃ and two service departments S₁ and S₂ the details pertaining to which are as under : [10]

| Particulars | P ₁ | P ₂ | P ₃ | S ₁ | S ₂ |
|--------------------|----------------|----------------|----------------|----------------|----------------|
| Direct Wages | 3000 | 2000 | 3000 | 1500 | 195 |
| Working Hours | 3070 | 4475 | 2419 | - | - |
| Value of Machine | 60,000 | 80,000 | 100,000 | 5,000 | 5,000 |
| HP of Machine | 60 | 30 | 50 | 10 | - |
| Light Points | 10 | 15 | 20 | 10 | 5 |
| Floor Space (Sqft) | 2000 | 2500 | 3000 | 2000 | 500 |

The following figures are extracted from the accounting record :

| | Rs. |
|-------------------------|--------|
| Rent & Rates | 5,000 |
| General Lighting | 600 |
| Indirect Wages | 1,939 |
| Power | 1,500 |
| Depreciation on machine | 10,000 |
| Sundries | 9,695 |

The expenses of service departments are allocated as under :

| | P ₁ | P ₂ | P ₃ |
|----------------|----------------|----------------|----------------|
| S ₁ | 20% | 30% | 50% |
| S ₂ | 40% | 30% | 30% |

Find out the total cost of product 'X' which is processed for manufacture in Department P1, P2, and P3 for 4, 5 and 3 hours respectively given

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(4)

9. XYZ Ltd. is currently operating at 75% of its capacity. In the past two years the level of operations were 55% and 65% respectively. Presently, the production is 75,000 units. The company is planning for 85% capacity level during 2017 - 2018.

The cost details are :

| Particulars | 55% | 65% | 75% |
|--------------------------|------------------|------------------|------------------|
| Direct Material | 11,00,000 | 13,00,000 | 15,00,000 |
| Direct Labour | 5,50,000 | 6,50,000 | 7,50,000 |
| Factory Overheads | 3,10,000 | 3,30,000 | 3,50,000 |
| Selling Overheads | 3,20,000 | 3,60,000 | 4,00,000 |
| Administrative Overheads | 1,60,000 | 1,60,000 | 1,60,000 |
| | <u>24,40,000</u> | <u>28,00,000</u> | <u>31,60,000</u> |

Profit is estimated @ 20% on sales. The following increase in cost are expected during the year :

| | % |
|----------------------------|----|
| Direct Material | 8 |
| Direct Labour | 5 |
| Variable Factory Overheads | 5 |
| Variable Selling Overheads | 8 |
| Fixed Factory Overheads | 10 |
| Fixed Selling Overheads | 15 |
| Administrative Overheads | 10 |

Prepare a flexible budget for the period of 2017-18 at 85 % Level of capacity and ascertain profit on sales. [10]

-----X-----

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(9)

Material 30%, Direct Labour 32%, Indirect labour 25% and Power 20%

When the part is purchased from outside supplier, the shipping charges would average 0.75 paise per unit and indirect labour cost would be increased by Rs. 20,000 annually for handling the purchased part.

Ascertain the relevant cost of buying and saving in the cost of manufacture of part no. 296 (If purchased from outside) and give your recommendation whether to make or buy. [10]

UNIT-IV

8. The details regarding composition and the weekly wage rates of labour force engaged on a job scheduled to be completed in 30 weeks are as follows :

| Category of Workers | Standard | | Actual | |
|---------------------|---------------|------------------|---------------|------------------|
| | No of workers | Weekly wage rate | No of workers | Weekly wage rate |
| Skilled | 75 | 60 | 70 | 70 |
| Semi Skilled | 45 | 40 | 30 | 50 |
| Unskilled | 60 | 30 | 80 | 20 |

The work is actually completed in 32 weeks, calculate the various labour variances. [10]

that direct material cost is Rs. 50 per unit and direct labour cost is Rs. 30 per unit. [10]

5. A product 'P' is obtained after it is processed through three distinct processes. The following information is available.

| Particulars | Total | Process 1 | Process 2 | Process 3 |
|---------------------------|-------|-----------|-----------|-----------|
| Materials (Rs) | 5625 | 2600 | 2000 | 1025 |
| Direct Wages (Rs) | 7330 | 2250 | 3680 | 1400 |
| Production Overhead (Rs.) | 7330 | - | - | - |

500 units @ Rs. 4 per unit were introduced in Process 1. Production overhead were observed as a percentage of direct wages.

The actual output of process 1, 2 and 3 are :

| Particulars | Output units | Normal Loss on Input | Value of scrap / unit |
|-------------|--------------|----------------------|-----------------------|
| Process 1 | 450 | 10% | Rs 2 |
| Process 2 | 340 | 20% | Rs 4 |
| Process 3 | 270 | 25% | Rs 5 |

There is no stock or work in progress. You are required to prepare :

- Three process accounts
- Abnormal loss account
- Abnormal gain account

[10]

UNIT-III

6. The following extracts are taken from the sales budget of a company for the current year :

(Rs. 000)

| | | |
|----------------------------------|-------|-----|
| Sales 40,000 units @ 25 per unit | 1,000 | |
| Selling cost : | | |
| Advertising | 100 | |
| Salesman's Salary | 80 | |
| Travelling Expenses | 50 | |
| Rent of Sales Office | 10 | |
| Others | 10 | 250 |

The management is considering a proposal to establish a new market this year. It is proposed to increase the advertising expenditure by 25% and appoint an additional supervisor at a salary of Rs. 30000 per year to establish the new market. The travelling expenses will go up by 10%.

Target annual sales volume at the existing selling price for the new market is 10,000 units and the estimated variable cost of production Rs. 12 per unit. Should the company try to establish the new market ? [10]

7. Component Part No. 296 is manufactured by Tulip Engineers Ltd and is used extensively in the Company's finished product. The annual requirement of the component is 12,000 units. The Lowest price quotation so far acquired from an outside supplier is Rs. 21.50 per unit. This is being considered, as the company wants to discontinue manufacture of the component and buy it from outside. You are asked to help the company take a decision. In this context the following information is supplied to you .

The expenses of production of part no. 296 for 12,000 units were as under :

| | |
|-----------------|----------|
| | Rs. |
| Materials | 3,50,000 |
| Lighting | 20,000 |
| Power | 30,000 |
| Insurance | 15,000 |
| Direct Labour | 4,00,000 |
| Indirect Labour | 1,60,000 |
| Depreciation | 2,00,000 |

to labour work out to normally 15% of the total labour cost discontinuing the production of the component would not in anyway permit the disposal of any of the factory assets. The following proportion of expenses can be avoided if manufacture of part no. 296 is stopped :