Name : ....

Roll No. : ....

Invigilator's Signature : ....

CS/MBA (NEW)/SEM-3(FT)/MB-301/2011-12

2011

MANAGEMENT ACCOUNTING

Time Allotted : 3 Hours *Full Marks :* 70

The figures in the margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

GROUP – A

(Multiple Choice Type Questions)

1. Choose the correct alternatives for any *ten* of the following : 10 × 1 = 10

   i) Fixed costs are those costs that

      a) remain constant on a per unit basis

      b) remain constant at all activity levels

      c) vary on per unit basis

      d) both (b) & (c).

   ii) The advertising expenditure incurred for the introduction of a new product is

      a) committed cost b) discretionary cost

      c) conversion cost d) opportunity cost.

iii) A job order cost sheet normally does not contain which of the following ?

a) Direct materials

b) Direct labour

c) Actual factory overhead

d) Applied factory overhead.

iv) Which of the following costs is irrelevant to a decision to accept or reject an order ?

a) replacement costs b) opportunity costs

c) unavoidable costs d) out of pocket costs.

v) Which of the following would not be used in job order costing ?

a) Standards

b) Averaging of direct labour and material rate

c) Direct costing

d) Factory overhead allocation based on direct labour hours applied to the job.

vi) Anamita Company has sales of Rs. 2,00,000 with variable expenses of Rs. 1,50,000, fixed expenses of Rs. 60,000, and an operating loss of Rs. 10,000. By how much would the company have to increase its sales in order to achieve an operating income of 10% of sales ?

a) Rs. 4,00,000 b) Rs. 2,51,000

c) Rs. 2,31,000 d) Rs. 2,00,000.

vii) A company's net income recently increased by 30% while its inventory increased to equal a full year's sales requirements. Which of the following accounting methods would be most likely to produce the favourable income results ?

a) Absorption costing   b) Direct costing

c) Variable costing   d) Standard costing.

viii) An imputed cost is

a) a cost that requires expenditure of cash

b) a cost that may be shifted to the future with little or no effect on current operations

c) a cost that cannot be avoided because it has already been incurred

d) a cost that does not entail any rupee outlay but which is relevant to the decision-making process.

ix) Which of the following is the most appropriate basis for applying overhead costs in a capital intensive industry ?

a) direct labour hours   b) machine hours

c) units produced   d) direct labour costs.

x) Under direct-costing method, which of the following is included in inventory costs ?

a) prime cost and all conversion costs

b) direct material cost, direct labour cost but not factory overhead cost

c) direct material cost, direct labour cost and variable factory overhead cost

d) manufacturing cost.

xi) When by-products are consumed by the same firm as raw materials, the cost can be allocated to the product on the basis of

a) sunk cost b) opportunity cost

c) standard cost d) marginal cost.

xii) The total sales of AB Ltd. at 70% level of capacity is Rs. 1,40,000. The sale price per unit is Rs. 20. The variable cost per unit is Rs. 8 and total fixed cost is Rs. 50,000. The net profit of the company at 80% level is

a) Rs. 46,000 b) Rs. 40,000

c) Rs. 38,880 d) Rs. 37,400.

GROUP – B

(Short Answer Type Questions)

Answer any *three* of the following. $3 \times 5 = 15$

2. Marginal costing is a technique useful to the management of a company. It this context, briefly discuss how the managers would recognize the value of marginal cost for profit planning cost control, decision making, etc.

3. Briefly explain the causes of under or over absorption of overhead expenses and the manner in which such under or over absorption is dealt with.

4. The process of grouping costs according to their common characteristics is called cost classification. The classification of overhead costs depends on the type and size of business, nature of product or service rendered and the management policy. In this context, briefly discuss the functional classification of overhead costs.

5. A contractor has to supply 10000 ball-bearings per day to an automobile company. The cost of holding a bearing in stock for one year is 2 paisa and the set up cost of production run is Rs. 18. Contractor finds that when he starts a production run, he can produce 15000 ball-bearings per day. Assume 300 working days in a year. You are required to ascertain :

   i) What should be the optimum size for ball-bearing manufacture ?

   ii) What should be the number of optimum set up per annum ?

   iii) What should be the interval between two consecutive production runs ?

6. The operating results of Precision Instruments Ltd. and Capital Industries Ltd. during the year 2010-2011 are given below. The managing directors of the 2 companies have taken decision to merge their plants.

Particulars	Precision Instruments Ltd.	Capital Industries Ltd.
Capacity Utilization	80%	70%
Sales (Rs. in lakhs)	720	770
Variable cost (Rs. in lakhs)	576	539
Fixed costs (Rs. in lakhs)	120	240

It is assumed that the proposal has been implemented.

You are required to compute the

a) Break-even sales of the merged plant and capacity utilization at that stage

b) Profitability of the merged plant at 90% level of capacity utilization.

GROUP – C

(Long Answer Type Questions)

Answer any *three* of the following. $3 \times 15 = 45$

7. a) Write down the concepts of Horizontal Analysis and Vertical Analysis with illustrations. 5

b) From the following information supplied by Fruity Co. Ltd., prepare a Proprietors Fund Statement as on 31st December, 2011 : 10

Current Ratio 1·6	Fixed Assets to Net Worth 0·75
Liquid Margin 1·15	Reserve to Net Worth 1/6
Gross Profit Margin 25%	Fixed Assets Turnover Ratio 1·5
Stock turnover ratio 6 times	Debtors velocity 3 months
Capital gearing ratio 3·8	Sales for the year Rs. 3,60,000

[(Equity share capital + Reserves) / Pref. Share Capital]

8. a) Briefly describe the application of CVP (Cost-Volume-Profit) analysis in various situations.

b) What is process costing ? Briefly discuss the main features of process costing.

c) Briefly discuss the various causes of arising labour efficiency variance. 4 + 6 + 5

9. The following information is obtained from the Annual Report for the month ending March, 31, 2011 :

Balance Sheets of Symphony Co Ltd.

(Rs. in crores)

Liabilities	31.3.2010	31.3.2011	Assets	31.3.2010	31.3.2011
Equity share capital	300	450	Fixed Assets (Net)	400	580
10% Red Pref. Share Capital	100	50	Investments	60	40
Profit & Loss A/c	150	300	Stock	65	275
Term Loan	125	—	Debtors	240	160
Sundry Creditors	125	175	Bills Receivables	45	35
Other current liabilities	20	75	Cash & Bank	48	60
Proposed Dividend	30	45	Prepaid Expenses	12	6
Provision for Taxation	40	75	Preliminary Expenses	20	14
	890	1170		890	1170

Additional Information :

a) Equity shares were issued at a premium of 15%

b) On 31. 03. 2010 accumulated depreciation on fixed assets amounted to Rs 140 crores and on 31. 03. 2011 Rs. 165 crores.

c) A plant costing Rs. 50 crores, accumulated depreciation thereon being Rs. 20 crores was discarded and written off.

d) An old furniture costing Rs. 10 crores with an accumulated depreciation of Rs. 6 crores was sold for Rs. 6 crores.

You are required to prepare a Cash Flow Statement (as per AS3) as at 31st March 2011 of Symphony Co. Ltd.

10. Delta Company Ltd. has the production capacity of 1,00,000 units per annum. The expenses, profit and selling price for production at 40,000 units for the year ended are furnished below :

	Per unit (Rs.)	
Material	20	(100% variable)
Labour	12	(100% variable)
Supervisor's salary	4	(100% fixed)
Other expenses in factory	6	(40% fixed)
Overall administrative expenses	4	(100% fixed)
Selling and Distribution expenses	5	(60% fixed)
Total cost	51	
Profit	19	
Selling price	70	

The semi-fixed expenses remain constant up to 75% level of capacity and will increase by Rs. 10,000 per annum for every increase of 10% of capacity utilization or part thereof. Market survey shows that selling price will have to be reduced as under with the increase in capacity utilization :

Capacity utilization	Reduction in price required over the price at 40% capacity utilization
60% to 80%	10%
Above 80%	15%

Prepare a flexible budget at 70%, 90% and 100% level of capacities inclusive of profit and cost per unit at each level.

11. Write short notes on any *three* of the following : 3 × 5

a) Cash pool

b) Return on investment

c) Variance analysis

d) Activity based costing

e) Relevant costs

f) Total cost management.