

CBCS Scheme

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16MBAFM305

Third Semester MBA Degree Examination, Dec.2017/Jan.2018 Cost Management

Time: 3 hrs.

Max. Marks:80

**Note: 1. Answer any FOUR full questions from Q.No.1 to Q.No.7.
2. Question No. 8 is compulsory.**

- 1 a. What is investment centre? (02 Marks)
 b. Distinguish between cost control and cost reduction. (06 Marks)
 c. The following information at 50% capacity is given. Prepare a flexible budget and forecast the profit or loss at 60%, 70% and 90% capacity.

Particulars	Expenses at 20% capacity (Rs.)
Fixed expenses: Salaries	50,000
Rent and taxes	40,000
Depreciation	60,000
Administrative expenses	70,000
Variable expenses: Material	2,00,000
Labour	2,50,000
Others	40,000
Semi-variable expenses: Repairs	1,00,000
Indirect labour	1,50,000
Others	90,000
Estimated sales at various levels of capacity are:	
Capacity	Sales (Rs.)
60%	11,00,000
70%	13,00,000
90%	15,00,000

It is estimated that fixed expenses will remain constant at all capacities. Semi-variable expenses will not change between 45% and 60% capacity, will rise by 10% between 61% and 75% capacity, a further increase of 5% when capacity crosses 75%. (08 Marks)

- 2 a. State the merits of activity based costing. (02 Marks)
 b. Discuss the classification of overheads according to elements and functions. (06 Marks)
 c. ABC Ltd., manufactures and sells printers. The following data is available for the quarter ending 31-03-2017

Particulars	31-03-2017		1-01-2017	
	No. of units	Rate/unit	No. of units	Rate/unit
Raw materials	20	?	30	1200
WIP	10	2670	20	2000
Finished goods	18	?	20	3000

Other information:

- i) Purchase of raw materials 100 units at Rs.1400 p.u.
- ii) Carriage inwards 10% of value of materials purchased.
- iii) Direct wages Rs.96000.
- iv) Outstanding wages Rs.2000.
- v) Factory expenses Rs.46000.
- vi) Office expenses Rs.58800.
- vii) Marketing expenses Rs.600 p.u.
- viii) Profit is 10% on selling price.
- ix) Sale of scrap 2 units at Rs.250 p.u.

Prepare a cost sheet showing the maximum breakup. (08 Marks)

- 3 a. State the limitations of traditional costing. (02 Marks)
 b. From the following information compute:
 i) Material cost variance
 ii) Material price variance
 iii) Material mix variance

	Standard			Actual		
	Qty (kgs)	Unit price (Rs)	Total (Rs)	Qty (kgs)	Unit price (Rs)	Total (Rs)
Material A	10	2	20	5	3	15
Material B	20	3	60	10	6	60
Material C	20	6	120	15	5	75
Total	50	4	200	30	5	150

- c. "Accounting system becomes useless if the business has no system of segment reporting." Elucidate the statement in the light of requisites of good reporting system. (06 Marks)
 (08 Marks)
- 4 a. State the user groups of segment reporting. (02 Marks)
 b. "Cost accounting is superior to financial accounting". Do you agree? Discuss. (06 Marks)
 c. The following particulars relate to a manufacturing company which has three production departments A, B and C and two service departments x and y.

	Production dept			Service dept	
	A	B	C	X	Y
Primary distribution	6300	7400	2800	4500	2000

The company decided to charge the service department costs on the basis of the following percentages.

Service departments	Production dept.			Service dept.	
	A	B	C	X	Y
X	40%	30%	20%	-	10%
Y	30%	30%	20%	20%	-

Find the total overheads of production departments by using:

- i) Simultaneous equation method. (08 Marks)
 ii) Repeated distribution method.
- 5 a. How do you calculate the machine hour rate? (02 Marks)
 b. Explain the steps which are necessary for the successful implementation of a budgetary control system. (06 Marks)
 c. Projwal Enterprises manufactures plastic toys has the following data:
 Material = Rs.80 p.u.
 Labour = Rs.60 p.u.
 Variable cost = Rs.40 p.u.
 Fixed overheads amount to Rs.280000 p.a. selling price of the plasticity is Rs.250.
 i) Determine the number of plastic toys to be manufactured and sold in a year to break even.
 ii) How many plastic toys have to be made and sold to make a profit of Rs.70000 per year?
 iii) If the sale price is reduced by Rs.20, how many plastic toys have to be sold to break even? (08 Marks)

- 6 a. Given the following, determine the margin of safety, profit = Rs.48000, selling price p.u = Rs.18, direct material = Rs.8 p.u and direct labour – Rs.4 p.u. (02 Marks)
- b. What are factors to be taken into consideration while designing a costing system? Explain briefly. (06 Marks)
- c. What do you understand by activity based costing? Explain the objectives and steps involved in activity based costing. (08 Marks)
- 7 a. State the objectives of cost audit. (02 Marks)
- b. Distinguish between absorption costing and marginal costing. (06 Marks)
- c. A companies flexible budget at various levels of production reveals the following:

Output (units)	SP (p.u) (Rs.)	Semi variable costs (Rs.)	Variable costs (Rs.)	Fixed costs (Rs.)
30000	24	150000	418000	142000
60000	22	150000	818000	142000
90000	20	170000	1278000	142000
120000	18	170000	1579000	142000
150000	16	200000	1778000	142000
180000	14	200000	1902000	142000

You are required to:

- Prepare a schedule showing the total differential costs and incremental revenue.
- At what level should the company set its level of production?
- What selling price is recommended by you in order to maximize the profits? (08 Marks)

8 **CASE STUDY:**

Bangalore manufacturing company given you the following information:

Particulars	Product A (Rs.)	Product B (Rs.)
Fixed o/h Rs.10000 p.a.		
D/M p.u. (direct material)	20	25
D/L p.u. (direct labour)	10	15
Variable overhead (100% of direct labour)		
Selling price p.u.	60	100

You are required to present a statement showing the marginal cost of each product and recommend which of the following sales mixer should be adopted.

- 900 units of A and 600 units of B
- 1800 units of A
- 1200 units of B
- 1200 units of A and 400 units of B
- 1000 units of a and 500 units of B
- 700 units of A and 1100 units of B. (16 Marks)

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