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08MBA32

Third Semester MBA Degree Examination, December 2010
Management Accounting of Control Systems

Time: 3 hrs. Max. Marks:100

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

1 a. What do you mean by management control system? **(03 Marks)**

b. What is meant by "transfer pricing"? Explain the types of transfer price. **(07 Marks)**

c. East point enterprise is currently working at 50% capacity and produces 10,000 units. Estimate the profits of the company, when it works at 60% and 70% capacity. At 60% capacity, the raw material cost increases by 2% and the selling price falls by 3%. At 70% capacity, the raw materials cost increases by 4% and the selling price falls by 5%. At 50% capacity working, the product costs Rs.180 per unit and is sold at Rs.200 per unit. The unit cost of Rs.180 is made up as follows : **(10 Marks)**

Material	Wages	Factory overheads	Administration overheads
Rs.100	Rs.30	Rs.20 (40% fixed)	Rs.30 (50% fixed)

2 a. What are cost drivers? Give three examples. **(03 Marks)**

b. What is MBO? Explain the advantages and limitations of MBO. **(07 Marks)**

c. Following information has been made available from the cost records of United Automobiles Ltd., manufacturing spare parts.

Direct Material		Direct Wages		Variable overheads	Fixed overheads	Selling price	
x	Rs.8/unit	x	24 hours at 25 paise/hr	150% of wages	Rs.750	x	Rs.25
y	Rs.6/unit	y	16 hours at 25 paise/hr			y	Rs.20

The directors want to be acquainted with the desirability of adopting any one of the following alternation sales mixes in the budget for the next period :

i) 250 units of x and 250 units of y ; ii) 400 units if y only ; iii) 400 units of x and 100 units of y ; iv) 150 units of x and 350 units of y.

State which of the alternative sales mixes you would recommend to the management. **(10 Marks)**

3 a. What are the features of marginal costing? **(03 Marks)**

b. What is standard costing? Explain the advantages of standard costing. **(07 Marks)**

c. In respect of a factory, the following figures have been obtained for the year 2008. Cost of materials Rs.6,00,000; Direct wages Rs.5,00,000; Factory overheads Rs.3,00,000; Administrative overheads Rs.3,36,000; Selling overheads Rs.2,24,000; Distribution overheads Rs.1,40,000 and profit Rs.4,20,000. A work order has been executed in 2009 and the following expenses have been incurred. Materials Rs.8000; Wages Rs.5000. Assume that in 2009, the rate of factory overheads has increased by 20%, administrative and selling overheads have gone by 12.5% and distribution expenses have gone down by 10%. At what price should the product be sold so as to earn the same rate of profit on selling price as in 2008? Factory overheads are based on direct wages, while all other overheads are based on works cost. **(10 Marks)**

4 a. What are overheads? How do you classify them? **(03 Marks)**

b. The cost structure of a product is :

Direct materials	Direct labour	Variable overheads	Fixed overheads	Sales/annum
Rs.6/unit	Rs.2/unit	Rs.4/unit	Rs.5,10,000	50,000 units

The capital employed in fixed assets is Rs.12 lakhs and current assets are 50% of sales. Determine the selling price per unit to earn a return of 20% on the capital employed. **(07 Marks)**

c. How the activity based costing more appropriate in an advanced technology based manufacturing environment? **(10 Marks)**

Important Note : 1. On completing your answers, compulsorily draw diagonal cross lines on the remaining blank pages.
2. Any revealing of identification, appeal to evaluator and /or equations written eg, 42+8 = 50, will be treated as malpractice.

5 a. What do you mean by labour cost variance? **(03 Marks)**

b. Define management control and task control. Bring out the differences between them. **(07 Marks)**

c. Assuming that the cost structure and selling prices remain the same in periods I and II, find out : i) P/V ratio ; ii) B.E sales ; iii) Profit when sales are Rs.1,00,000 ; iv) Sales required to earn a profit of Rs.20,000 ; v) Margin of safety in II period.

Period	Sales	Profit
	Rs.	Rs.
I	1,20,000	9,000
II	1,40,000	13,000

(10 Marks)

6 a. State the use of cost audit. **(03 Marks)**

b. Explain in detail the different types of "cost classification". **(07 Marks)**

c. From the following information, compute :

i) Material cost variance ; ii) Material price variance ; iii) Material usage variance ; iv) Material mix variance and v) Material sub – usage variance. **(10 Marks)**

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

7 a. State the objectives of CVP analysis. **(03 Marks)**

b. Distinguish between cost control and cost reduction. Explain some of the areas, where cost reduction schemes can be applied. **(07 Marks)**

c. Grasim Industries Ltd. is engaged in the manufacture of chemical X, which is obtained after it passes through three distinct processes. You are required to prepare the process accounts.

	Process I	Process II	Process III
Materials	Rs.5,200	3,960	5,924
Direct Wages	Rs.4,000	6,000	8,000
Production overheads	Rs.18,000		

1,000 units at Rs.6 per unit were introduced in process I. Production overhead is to be distributed at 100% on wages. **(10 Marks)**

Actual output	Units	Normal loss	Value of scrap per unit
Process I	950	5%	Rs.4
Process II	840	10%	Rs.8
Process III	750	15%	Rs.10

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Case Study – (Compulsory)

A company manufactures three products A, B and C. These products require blending of three different materials P, Q and R. Certain data are as follows :

Particulars	Product		
	A	B	C
Sales price (Rs.)	100	120	140
Sales Quantity (No.)	100	200	150
Inventory :			
Opening (No.)	100	150	50
Closing (No.)	110	165	55

Particulars	Materials		
	P	Q	R
Price per kg (Rs.)	4	6	9
Input :	kg	kg	kg
In product A	4	2	-
B	3	3	2
C	2	1	1
Stock in Hand :			
Opening	2,600	2,000	1,200
Closing	3,120	2,400	1,440

Prepare :

i) Sales budget in rupees ; ii) Production budget in quantities ; iii) Budget of material usage in quantities ; iv) Material purchase budget in rupees. **(20 Marks)**

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