

**Third Semester MBA Degree Examination, December 2011**  
**Management Accounting and Control Systems**

Time: 3 hrs.

Max. Marks:100

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

- 1 a. Define management control. (03 Marks)  
b. Define MBO. Explain the steps involved in implementing MBO. (07 Marks)  
c. The information given below has been taken from the cost records of an engineering works in respect of job no. 22.

Materials	₹6,040
Wages :	
Department I :	80 hours @ ₹4 per hour
Department II :	60 hours @ ₹3 per hour
Department III :	40 hours @ ₹2 per hour

The overhead expenses are as follows :	
Variable overheads :	
Department I :	₹8,000 for 4000 hours
Department II :	₹4,000 for 2000 hours
Department III :	₹3,000 for 1000 hours

Fixed expenses are estimated at ₹30,000 for 12,000 working hours. You are required to calculate the cost of job no.22 and calculate the price for the job to give a profit of 25% on selling price. (10 Marks)

- 2 a. What is process costing? Where is it used? (03 Marks)  
b. What is overhead? Explain briefly how to classify them. (07 Marks)  
c. The product of a company passes through three distinct processes to completion. They are known as A, B and C. From the past experience, it is ascertained that loss incurred in each process is : Process A – 2%, Process B – 5%, Process C – 10%.  
In each case, the percentage of loss is computed on the number of units entering the process concerned.

The loss of each process possesses a scrap value. The loss of process A and B is sold at ₹5 per 100 units and that of process C at ₹20 per 100 units.

The output of each process passes immediately to the next process and the finished units are passed from process C into stock.

The following information is obtained :

	Process A	Process B	Process C
	₹	₹	₹
Materials consumed	6,000	4,000	2,000
Direct labour	8,000	6,000	3,000
Manufacturing expenses	1,000	1,000	1,500

20,000 units have been issued to process A at a cost of ₹10,000. The output of each process has been as under :

Process A – 19500 units, Process B – 18,800 units and Process C – 16,000 units.

There is no work in progress in any process. Prepare process accounts. Calculations should be made to the nearest rupee. (10 Marks)

- 3 a. Distinguish between cost centre and cost unit. (03 Marks)  
 b. Discuss the objectives and advantages of cost audit. (07 Marks)  
 c. You are given the following data :

Year	Sales ₹	Profit ₹
2009	1,20,000	9,000
2010	1,40,000	13,000

Assuming that the cost structure and selecting price remain unchanged in two years, find out:

- i) P/V ratio.  
 ii) Break even point.  
 iii) Profit when sales are ₹1,00,000.  
 iv) Sales required to earn profit of ₹20,000 and  
 v) Margin of safety in 2010. (10 Marks)
- 4 a. Define margin of safety. (03 Marks)  
 b. What is marginal costing? How is it different from absorption costing? (07 Marks)  
 c. Two businesses Alfa limited and Betalimited, sell the same type of product in the same type of market. Their budgeted profit and loss accounts for the current year ending March 31 are as follows :

Particulars	Alfa Limited		Beta Limited	
Sales		₹1,50,000		₹ 1,50,000
Less:				
Variable cost	₹1,20,000		₹1,00,000	
Fixed cost	₹15,000	1,35,000	₹35,000	1,35,000
Net budgeted profit		15,000		15,000

You are required to :

- I) Calculate the break – even points of each business.  
 II) State which business is likely to earn greater.

Profit in conditions of :

- i) Heavy demand for the product.  
 ii) Low demand for the product. (10 Marks)
- 5 a. Define flexible budget. (03 Marks)  
 b. Define standard costing. Bring out the difference between standard costing and budgetary control. (07 Marks)  
 c. The expenses budgeted for production of 10,000 units in a factory are furnished below :

Materials	₹ per unit
Labour	70
Direct expenses	25
Variable overheads	20
Fixed overheads (₹1,00,000)	10
Selling expenses (10% fixed)	13
Distribution expenses (20% fixed)	7
Administrative expenses (fixed ₹50,000)	5
Total cost of sales per unit	<u>155</u>

You are required to prepare a budget for line production of 8000 units. (10 Marks)

- 6 a. Distinguish between cost reduction and cost control. (03 Marks)  
 b. What is meant by CVP analysis? Briefly explain the assumptions and uses of CVP analysis. (07 Marks)

- c. From the data given below, calculate the material price variance, the material usage variance and material mixture variance.

Consumption per 100 units of product		
Material	Standard	Actual
A	40 units @ ₹ 50 per unit	50 units @ ₹ 50 per unit
B	60 units @ ₹ 40 per unit	60 units @ ₹ 45 per unit

(10 Marks)

- 7 a. What is activity based costing system? (03 Marks)  
 b. What are the objectives of pricing policy? Discuss the factors influencing the pricing policy decisions. (07 Marks)  
 c. Kingston industries manufactures two types of hand tools. Gama and Delta. An estimate of the number of units expected to be sold in the first seven months of 2010 is given below :

	January	February	March	April	May	June	July
Gama	5,000	6,000	8,000	10,000	12,000	12,000	10,000
Delta	14,000	14,000	12,000	10,000	8,000	8,000	8,000

- i) The work in progress at the end of every month will be nil and  
 ii) Finished units equal to 50% of the estimated sales for the next month will be in stock at the end of each month and this would apply to December 2009 as well.

The figures of production and cost, extracted from the budget for the year ending 31/12/2010 are as follows :

	Gama	Delta
Production	1,10,000	1,20,000
Cost per unit	12	19
Direct material	5	7
Other manufacturing expenses	1.50	2.00

- i) Prepare a production budget showing the number of units to be manufactured every month, during the first half of 2010.  
 ii) Prepare production cost budget in a summarized form for the first six months of 2010. (10 Marks)

- 8 Auto parts limited has an annual production of 90,000 units for a major component. The component cost structure is as given below :

	₹
Material	270 per unit
Labour (25% fixed)	180 per unit
Expenses :	
Variable	90 per unit
Fixed	135 per unit
Total	675 per unit

- i) The purchase manager has an offer from a supplier, who is willing to supply the component at ₹ 540. Should the component be purchased and production stopped?  
 ii) Assume that the resources now used for this manufacturer are to be used to produce another new product, for which the selling price is ₹ 485.

In the latter case, material price will be ₹ 200 per unit. 90,000 units of this product can be produced, at the same cost basis as above for labour and expenses. Discuss whether it would be advisable to divert the resources to manufacture that new product, on the footing that the component presently being produced would, instead of being produced, be purchased from the market. (20 Marks)

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