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10MBA32

# Third Semester MBA Degree Examination, Dec.2013/Jan.2014

## Management Accounting and Control Systems

Time: 3 hrs. Max. Marks:100

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

1 a. What is transfer pricing? **(03 Marks)**

b. Explain break even analysis. What are its uses? **(07 Marks)**

c. The following details have been obtained from the cost records of xyz Ltd:

| | |
|---|---|
| Stock of raw-materials on 1st Dec.2009 | 75,000 |
| Stock of raw-materials on 31st Dec.2009 | 91,500 |
| Direct wages | 52,500 |
| Indirect wages | 2,750 |
| Sales | 2,11,000 |
| Work-in-progress 1st Dec.2009 | 28,000 |
| Work-in-progress 31st Dec.2009 | 35,000 |
| Purchase of raw-materials | 66,000 |
| Factory rent, rates and power | 15,000 |
| Depreciation of plant and machinery | 3,500 |
| Expenses on purchases | 1,500 |
| Carriage outwards | 2,500 |
| Advertising | 3,500 |
| Office rent & taxes | 2500 |
| Traveller's wages & commission | 6500 |
| Stock of finished goods (1st Dec.2009) | 54,000 |
| Stock of finished goods (31st Dec.2009) | 31,000 |

Prepare a cost sheet giving maximum possible breakup of costs and profit. **(10 Marks)**

2 a. What is activity based costing? **(03 Marks)**

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

c. Arvind Ltd. has three production depts. A, B and C and two service departments D and E. The following figures are extracted from the records of the company:

| | |
|---|---|
| Rent and rates | 5000 |
| Indirect wages | 1500 |
| Depreciation of machinery | 10,000 |
| General lighting | 600 |
| Power | 1,500 |
| Sundries | 10,000 |

Following further details are available:

| | Total | A | B | C | D | E |
|---|---|---|---|---|---|---|
| Floor space in square feet | 10,000 | 2000 | 2500 | 3000 | 2000 | 500 |
| Light points | 60 | 10 | 15 | 20 | 10 | 5 |
| Direct wages (Rs.) | 10,000 | 3000 | 2000 | 3000 | 1500 | 500 |
| H.P of machines | 150 | 60 | 30 | 50 | 10 | - |
| Value of machining (Rs.) | 2,50,000 | 60,000 | 80,000 | 1,00,000 | 5000 | 5000 |

Apportion the cost to various departments on the most equitable basis by preparing a primary departmental distribution summary. **(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.

3 a. What is cost audit? How is it different from financial audit? **(03 Marks)**

b. Distinguish between cost centre, profit centre and investment centre. **(07 Marks)**

c. Arjun and company uses job costing. The following date is obtained from its books for the year ended 31st December 2003:

| | |
|---|---|
| Direct materials | 1,80,000 |
| Direct wages | 1,50,000 |
| Profit | 1,21,800 |
| Selling and distribution over heads | 1,05,000 |
| Administration over heads | 84,000 |
| Factory overheads | 90,000 |

i) Prepare a job cost sheet indicating primary cost, works cost, production cost, cost of sales and sales value.

ii) In 2009, the company receives an order for a number of jobs estimated direct material cost is Rs.2,40,000 and direct labour cost Rs.1,50,000. What should be the price for these jobs if the company intends to each the same rate of profit on sales assuming that selling and distribution overheads have gone up by 15%? The factory recovers factory over heads as a percent age of direct wages and administration and selling overheads as a percentage of works cost. **(10 Marks)**

4 a. What do you mean by flexible budget? **(03 Marks)**

b. What is MBO? Explain its pre-requisites, advantages and disadvantages. **(07 Marks)**

c. A product posses through three processes X, Y and Z to its compaction. During September 2008, 5000 units of finished product were produced and the following expenses were incurred:

| | Process X | Process Y | Process Z |
|---|---|---|---|
| Materials | 5000 | 10,000 | 5000 |
| Direct wages | 25,000 | 20,000 | 15,000 |
| Direct expenses | 2,500 | 3,000 | 5000 |

Indirect expenses amounted to Rs.30,000 which the to be apportioned to the processes on the basis of direct wages. Row-materials worth Rs.30,000 were issued to process 'X'. Ignore the question of process stocks and prepare the process accounts, showing the cost per unit in each process. **(10 Marks)**

5 a. What is sunk cost and out of pocket cost? **(03 Marks)**

b. Explain the pre-requisites of a successful budgetary control systems? **(07 Marks)**

c. Two business V.P. Ltd and T.R. Ltd, sell the same type of product in the same type of market.

Their budgeted profit and loss accounts for the coming year are as follows:

| | VP Ltd | | TR Ltd |
|---|---|---|---|
| Sales | 1,50,000 | | 1,50,000 |
| Less variable cost 120,000 | | 1,00,000 | |
| Fixed cost 15,000 | 1,35,000 | 35,000 | 1,35,000 |
| | 15,000 | | 15,000 |

You are required to –

i) Calculate break-even point of each business.

ii) Calculate the sales volume at which each business will earn Rs.5000 profit.

iii) State which business is likely to earn great profit in conditions of:

I) Heavy demand for the product.

II) Low demand for the product.

Briefly give your reasons. **(10 Marks)**

6 a. What is process costing? (03 Marks)
b. Explain the different stages or steps involved in overheads. (07 Marks)
c. Draw up a flexible budget for overhead expenses on the basis of the following data and determine the overhead rates at 70%, 80% and 90% plant capacity:

| | At 70% capacity | At 80% capacity | At 90% capacity |
|---|---|---|---|
| Variable overheads: | | | |
| Indirect labour | - | 12000 | - |
| Stores including spares | | 4000 | - |
| Semi-variable overheads: | | | |
| Power (30% fixed 70% variable) | | 20,000 | - |
| Repairs and maint: | | | |
| Fixed 60% | | | |
| Variable overhead 40% | | 2,000 | - |
| Fixed overheads: | | | |
| Depreciation | | 11,000 | - |
| Insurance | | 3,000 | - |
| Salaries | | 10,000 | - |
| Total overheads | | 62,000 | - |
| Estimated direct labour loss | | 1,24,000 | - |

(10 Marks)

7 a. Distinguish between direct cost and indirect cost. (03 Marks)
b. Discuss the assumptions, advantages and limitations of marginal costing. (07 Marks)
c. The P/V ratio of a firm dealing in precision instruments in 50% and margin of safety is 40%. You are required to work-out break even point and the net profit if the sales volume is 50,00,000. If 25% of variable cost is labour cost, what will be the effect on BEP and profit when labour efficiency decreases by 5%. (10 Marks)

8 **CASE STUDY**

The sales turnover and profit during two years were as follows:

| Year | Sales | Profit |
|---|---|---|
| 2008 | 1,40,000 | 15,000 |
| 2009 | 1,60,000 | 20,000 |

Calculate:
a. P/V ratio.
b. Break-even point.
c. Sales required to earn a profit of Rs.40,000.
d. Fixed expenses and
e. Profit when sales are Rs.1,20,000. (20 Marks)

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