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Your Roll No. ....

2873

M.Com./I Sem. (NC) **F**

Paper 4103 : MANAGERIAL ACCOUNTING

Time : 3 *Hours* *Maximum Marks* : 100

(Write your Roll No. on the top immediately on receipt of this question paper.)

Attempt *All* questions.

All questions carry equal marks.

1. (*a*) What are the steps involved in the managerial decision making process ? What role does management accounting play in that process ? 10

(*b*) Define and illustrate the following concepts of cost :

(*i*) Product and Period cost

(*ii*) Controllable and Non-controllable cost. 5×2=10

P.T.O.

Or

(*c*) How are costs assigned to products under Activity-Based costing ? 10

(*d*) Describe advantages and disadvantages of variable costing. 10

2. (*a*) What do you mean by relevant information analysis ? Explain differential revenue and differential cost. 10

(*b*) Discuss the functions of budgeting. What are its limitations ? 10

Or

(*c*) Compare and contrast the usefulness of ideal standards, basic standards and currently attainable standards. 10

(*d*) What advantages and disadvantages are shared by ROI and Residual Income ? What can be done to overcome this problem ? 10

3. What is transfer pricing ? Discuss different methods of transfer pricing along with their merits and demerits. 20

Or

"This makes no sense at all," said Rajnish, president of ITC Company. "We sold the same number of units this year as we did last year, yet our profits have more than doubled. Who made the goof—the computer or the people who operate it ?" The statements to which Mr. Rajnish was refering are shown below (absorption costing basis) :

	Year 1	**Year 2**
Sales (20,000 units each year)	7,00,000	7,00,000
Less Cost of goods sold	4,60,000	4,00,000
Gross margin	2,40,000	3,00,000
Less Selling and Administrative Expenses	2,00,000	2,00,000
Net income	40,000	1,00,000

The statements above show the results of the first two years of operation. In the first year, the company produced and sold 20,000 units; in the second year, the company again sold 20,000 units, but it increased production in order to have a stock of units on hand, as shown below :

	Year 1	Year 2
Production in units	20,000	25,000
Sales in units	20,000	20,000
Variable production cost per unit	Rs. 8	Rs. 8
Fixed Manufacturing Overhead		
Costs (total)	Rs. 3,00,000	Rs. 3,00,000

ITC Company produces a single product, fixed manufacturing overhead costs are applied to the product on the basis of each year's production. Thus, a new fixed manufacturing overhead rate is computed each year. Variable selling and administrative expenses are Re. 1 per unit sold.

Required :

(*i*) Prepare an income statement for each year, using variable costing.

(*ii*) Reconcile the variable costing and absorption costing net income figures for each year. 20

4. A cycle tyre manufacturing company has been approached by a large shopkeeper that offers to buy 10,000 tyres at Rs. 3,200. Delivery must be made within 30 days. The production capacity of the company is 64,000 units per month and there is inventory of 2,000 tyres. Expected sales at regular prices for the coming month are 60,000 tyres. It is estimated by the sales manager that about 50% of sales lost during the month would be made up in later months. Price and cost data per unit are as follows :

Selling Price	Rs. 4,800
Variable Costs :	
Production	(2,400)
Selling	(600)
Profit Contribution	1,800

The variable selling costs on the special order would be Rs. 100 per unit.

Required :

(*i*) Determine whether the offer should be accepted by the firm or not.

(*ii*) Determine the lowest price that the company could charge on the special order and not reduce its income.

(*iii*) Suppose now that the shopkeeper offers to buy 8,000 tyres per month at Rs. 3,200 per tyre. The offer would be for an entire year. Expected sales are 60,000 tyres per month without accepting the special order. Assuming further that there is no beginning inventory and that sales lost during the year would not be made up in the following year, determine whether the offer should be accepted and determine the lowest price that company could accept. 20

Or

Sri Ram Piston Co. has the following data from year 1 operations, which are to be used for developing year 2 budget estimates :

Revenues (1,00,000 units)		Rs. 7,46,000
Manufacturing Costs :		
Materials	Rs. 1,33,000	
Variable Costs	Rs. 1,80,900	
Fixed Costs (excluding depreciation)	Rs. 72,000	
Depreciation (Fixed)	Rs. 89,000	Rs. 4,74,900
Marketing and Administrative Costs :		
Marketing (Variable)	Rs. 95,000	
Depreciation of Marketing Building and Equipment	Rs. 22,600	
Administrative (Fixed) (excluding depreciation)	Rs. 90,110	
Depreciation of Administrative Building and Equipment	Rs. 8,400	Rs. 2,16,110
Total Costs		Rs. 6,91,010
Operating Profits		Rs. 54,990

All depreciation costs are fixed. Sales volume and prices are expected to increase by 12 percent and 6 percent, respectively. On a per unit basis, expectations are that materials costs will increase by 10 percent and variable manufacturing costs will decrease by 4 percent. Fixed manufacturing costs are expected to decrease by 7 percent

Variable marketing costs will change with volume. Administrative cash costs are expected to increase by 8 percent.

Prepare a budget profit plan for year 2. Management wants to increase operating profits by 20 percent over year 1's Rs. 54,990 expected profits. Based on your budget for year 2, are profits expected to increase by 20 percent ? Why or why not ? 20

5. Bajaj Company's small motor division produces a variety of small motors that are used in various household and office appliances. Bajaj's Kitchen Products division produces

appliances such as blenders, juicer and so on. The most frequently used motor is model A 28, which can be purchased from a number of outside suppliers for Rs. 2,300 each. The manager of the Kitchen Products division has approached the manager of the small motor division and offered to buy 1,50,000 model A 28 small motors. The Small Motor division is producing at capacity and produces and sells 2,00,000 model A 28 motors to outside customers for Rs. 2,300 each.

Required :

(*i*) What is the minimum transfer price for the Small Motor Division ? What is the maximum transfer price for the Kitchen Products division ? Is it important that transfer take place internally ? If transfers do take place, what should the transfer price be ?

(*ii*) Now assume that the Small Motor division incurs selling costs of Rs. 200 per motor that could be avoided if the

motors are sold internally. Identify the minimum transfer price for the Small Motor division and the maximum transfer price for the Kitchen Products Division. Should internal transfers take place ? If so, what is the benefit to the firm as a whole ?

(*iii*) Suppose you are the manager of the Small Motor Division. Selling costs of Rs. 200 per motor are avoidable if they are sold internally. Would you accept an offer of Rs. 2,200 from the manager of the other division ? How much better off (or worse off) would your division be if this price is accepted ? 20

Or

The following is the standard cost card of a component :

Materials	2 units at Rs. 15
Labour	3 Hours at Rs. 20
Total overheads	3 Hours at Rs. 10

During a particular month 10,000 units of the component were produced and the same was found to be at 60% capacity of the budget. In preparing the variance report for the month, the cost accountant gathered the following information :

Labour	Rs. 6,50,000
Variable Overheads	Rs. 2,00,000
Fixed Overheads	Rs. 3,00,000
Material Price Variance	Rs. 70,000(A)
Material Cost Variance	Rs. 50,000(A)
Labour Rate Variance	Rs. 50,000(F)
Fixed overhead expenditure variance	Rs. 50,000(A)

Required :

Compute the following :

(*i*) Actual material cost incurred

(*ii*) Standard cost of materials actually consumed

(*iii*) Labour efficiency variance

(*iv*) Variable overhead efficiency variance

(*v*) Variable overhead expenditure variance

(*vi*) Fixed overhead efficiency variance

(*vii*) Fixed overhead capacity variance

(*viii*) Fixed overhead volume variance. 20