[This question paper contains 12 printed pages.]

1958 *Your Roll No.* .....

MIB / I Sem. **A**

Course 514 – ACCOUNTING FOR DECISION MAKING

(Admissions of 2004 and onwards)

Time : 3 hours *Maximum Marks : 70*

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

Attempt **all** *questions as per the internal choice given.*

1. (a) "A cost accounting system that simply records costs for the purpose of fixing sale prices has accomplished only a small part of its mission." Explain. (4)

(b) A factory can produce 60,000 units per annum at 100% capacity.

The estimated costs are as follows :

Direct material cost ..... ₹ 5 per unit

Direct labour cost ..... ₹ 3 per unit

Indirect expenses :

Fixed ..... ₹ 2,00,000 per annum

Variable ..... ₹ 6 per unit

P.T.O.

Semi-variable	...	₹ 52,000 per annum upto 50% capacity and an extra expense of ₹ 11,000 per annum for every 25% increase in capacity or part thereof.

Factory produces at 50% capacity during the first three months of the year and at 80% capacity during remaining months.

The management desires to earn a profit of ₹ 2,10,000 for the year

You are required to prepare a statement of cost and also work out the average selling price per unit. (10)

OR

(a) "Selling price is always based on total cost." Comment. (4)

(b) From the following data, calculate :

(i) P/V ratio.

(ii) Profit when sales are ₹ 20,000.

(iii) New B.E.P. if selling price is reduced by 20%.

Data :

Fixed expenses : ₹ 4,000

Break-event point : ₹ 10,000 (10)

2. (a) "The technique of marginal cost can be a valuable aid to management." Discuss. (4)

(b) In the manufacture of product 'X', 1200 Kgs. of material at ₹ 200 per Kg. were supplied to the first process in period no. 2. Labour cost amounted to ₹ 6,000 and production overhead of ₹ 3,000 were incurred. The normal loss has been estimated 10%. The process loss has scrap value @ ₹ 50 per Kg. The actual production realised was 1,120 Kgs.

You are required to prepare the following :

(i) Process 1 Account

(ii) Abnormal Gain Account

(iii) Normal Loss Account (10)

OR

(a) What are the different methods of accounting for by - products ? Discuss briefly. (4)

(b) From the following balances and additional information, you are required to prepare Trading and Profit and Loss Account, and Balance Sheet :

	₹
Capital	10,00,000
Machinery	3,50,000
Debtors	2,70,000
Drawings	90,000
Purchases	9,50,000
Creditors	1,40,000
Wages	5,00,000
Bank	1,50,000
Goods-in-Trade (in the beginning)	2,00,000
Rent paid	45,000
Sales	14,50,000
Sundry expenses	20,000
Carriage inwards	15,000

Additional Information :

(i) Stock at the end ₹ 60,000

(ii) Rent outstanding ₹ 5,000

(iii) Wages prepaid ₹ 10,000

(iv) Depreciate machinery by 10% (10)

(a) Distinguish between any **two** of the following :

(i) Direct and indirect cost

(ii) Scrap and wastage

(iii) Conversion cost and factory cost

(iv) Spoilage and defectives (4)

(b) Vinayak Ltd. manufactures a range of products and has just received a proposal from Bimal Machining Company that one of its products 'XYZ' could be supplied to them advantageously at a price of ₹ 2,800 per unit.

The cost of manufacturing in the Vinayak Ltd. is as follows :

	'XYZ' costs per unit
	₹
Material	1,500
Process I	1,500
Process II	500
	3,500

From further enquiries the following facts emerge :

(i) Process I costs included an element of fixed overhead of approximately 40 percent.

3. (a) Write short notes on any **two** of the following :

(i) Budget period

(ii) Budget Manual

(iii) Master Budget

(iv) Principal Budget factor (4)

(b) From the following data, prepare a flexible budget for production of 40,000 units and 75,000 units, distinctly showing variable cost and fixed cost as well as total cost. Also indicate element-wise cost per unit. Budgeted output is 1,00,000 units and budgeted cost per unit is as follows :

	₹
Direct material	95
Direct labour	50
Production overhead (variable)	40
Production overhead (fixed)	5
Administration overhead (fixed)	5
Selling overhead (10% fixed)	10
Distribution overhead (20% fixed)	15

(10)

OR

(ii) Process II is a joint process producing three products in addition to 'XYZ'. The process costs would still be incurred if 'XYZ' were not produced by the company.

Advise the management of Vinayak Ltd. Co. whether the proposal to purchase should be accepted or to continue manufacturing. (10)

4. (a) A producer has to make a choice between 'Inferior' and 'Superior' machines producing same product. However, the quality of production from 'superior' machine is somewhat better. Details regarding the two machines are as follows :

	'Inferior'	'Superior'
	₹	₹
Fixed cost	2,50,000	4,00,000
Variable cost per unit	40	36
Selling price per unit	60	61

At what level of output and sales the profit from the two machines will be equal, below which 'inferior' is profitable and above which 'superior' is more suitable ? (4)

(b) In a factory from every ton of raw material consumed, it is estimated that 200 articles of product 'M' will be produced. Standard price of the material is ₹ 120 per ton.

In a given period, 50 tons of materials were issued to production. The actual price of the material was ₹ 118.50 per ton. Actual production during the period was 10,100 articles. Calculate the following :

(i) Direct Material Price Variance

(ii) Direct Material Usage Variance

(iii) Direct Material Cost Variance (10)

OR

(a) Write notes on any **two** of the following :

(i) Cost concept

(ii) Money Measurement concept

(iii) Going-concern concept

(iv) Materiality concept (4)

(b) A Ltd. Co. has capacity to produce 1,00,000 units of a product every month. Its works cost at varying levels of production is as under :

Level	Works cost per unit
	₹
10%	400
20%	390
30%	380
40%	370
50%	360
60%	350
70%	340
80%	330
90%	320
100%	310

Its fixed administrative expenses amount to ₹ 1,50,000 and fixed marketing expenses amount to ₹ 2,50,000 per month respectively. Its variable distribution costs amount to ₹ 30 per unit.

It can make 100% of its output at ₹ 500 per unit provided it incurs the following further expenditure :

(i) It gives gift items costing ₹ 30 per unit of sale.

(ii) It has lucky draws every month giving the first prize of ₹ 50,000; 2nd prize of ₹ 25,000, 3rd prize of ₹ 10,000 and three consolation prizes of ₹ 5,000 each to customers buying the product.

(iii) It spends ₹ 1,00,000 on refreshments served every month to customers.

(iv) It sponsors a television programme every week at a cost of ₹ 20,00,000 per month.

It can market 30% of its output at ₹ 500 per unit without incurring any of the expenses referred to in (i) to (iv) above.

Advise the company on its course of action. Show the supporting cost sheets. (10)

5. (a) Distinguish between cost accounting and management accounting or cost accounting and financial accounting. (4)

(b) Thee are two similar plants under the same management. The management desires to merge these two plants. The following particulars are available :

	Factory I	Factory II
Capacity operation	100%	60%
Sales	₹ 300 lakhs	₹ 120 lakhs
Variable costs	₹ 220 lakhs	₹ 90 lakhs
Fixed costs	₹ 40 lakhs	₹ 20 lakhs

You are required to determine :

(i) What would be the capacity of the merged plant to be operated for the purposes of Break-even, and

(ii) What would be the profitability on working at 75% of the merged capacity ? (10)

OR

(a) A Co. has a fixed cost of ₹ 2,00,000. It sells two products – 'X' and 'Y' in the ratio of 2:1. If contribution of 'X' is ₹ 10 per unit and of 'Y' is ₹ 20 per unit, how many units of each 'X' and 'Y' would be sold at break-even point ? (4)

(b) You are given the following information relating to the years 2008-09 and 2009-10 :

		2008-09	2009-10
Opening stock	(units)	—	300
Production	(units)	1,200	1,400
Fixed cost	(₹)	2,00,000	2,10,000
Variable cost	(₹)	1,50,000	2,80,000
Sales	(units)	900	1,100
Selling price	(₹/units)	400	500
Closing stock	(units)	300	600

Prepare income statement using FIFO under marginal costing and absorption costing. (10)

(100)****