

Seat NO _____

Enrollment No _____

Marwadi Education Foundation Group of Institutions - Rajkot

MBA Semester –II Examination March. - 2015

Subject code: 2820001

Date:

Subject Name: Cost and Management Accounting

Time: 3 Hours

Total Marks: 70

Q-1 (a) Attempt the following multiple choice question 06

1. Abnormal cost is the cost:
 - a. Cost normally incurred at a given level of output
 - b. Cost not normally incurred at a given level of output
 - c. Cost which is charged to customer
 - d. Cost which is included in the cost of the product
2. Operating costing is suitable for
 - a. job order business.
 - b. contractors.
 - c. sugar industries.
 - d. service industries.
3. Allotment of whole item of cost to a cost center or cost unit is known as:
 - a. Cost Apportionment
 - b. Cost Allocation
 - c. Cost Absorption
 - d. Machine hour rate
4. Management accounting is suitable for _____.
 - a. large industries and trading concerns.
 - b. co-operative societies.
 - c. Small Business
 - d. non profit organisation
5. An increase in variable costs _____.
 - a. increases p/v ratio .
 - b. increase in the profit
 - c. reduce contribution
 - d. increase in MOS
6. Which of the following is usually a long-term budget _____.
 - a. Fixed budget.
 - b. Cash budget
 - c. Sales budget
 - d. Capital budgeting

Q-1 (b) Attempt each of the following 04

1. Cost object with example
2. Abnormal Gain
3. Target costing
4. Equivalent units

Q-1 (c) What is Process Costing? Explain the main features of Process Costing. 04

Q-2 (a) What is the difference between Joint Products and By-products? Briefly explain any two methods of apportionment of Joint Cost. 07

(b) Anglo co. Ltd has three production department X, Y, Z and two service department A & B. The following estimated figures for a certain period have been made available: 07

Rent and Rates	Rs.10000
Lighting and Electricity	Rs.1200

Indirect Wages	Rs.3000
Power	Rs.3000
Depreciation of Machinery	Rs.20000
Other expenses	Rs.20000

Following further detail are also available:

Particular	Total	X	Y	Z	A	B
Floor Space (sq. Ft)	10000	2000	2500	3000	2000	500
Light points (Nos)	120	20	30	40	20	10
Direct wages (Rs.)	20000	6000	4000	6000	3000	1000
Horse Power of Machine	300	120	60	100	20	---
Cost of machinery (Rs.)	100000	24000	32000	40000	2000	2000
Working hours	----	4670	3020	3050	---	---

The expenses of the service departments A & B are to be allocated as follows:

	X	Y	Z	A	B
A	20%	30%	40%	---	10%
B	40%	20%	30%	10%	---

You are required to calculate the overhead absorption rate per hour in respect of three production departments. Secondary distribution is to be done by repeated distribution method.

OR

- (b) Television Enterprises supply you the following information for 10000 TV valves manufactured during the year ending 31.12.2009

Direct Material	Rs. 90000
Direct Wages	Rs. 60000
Power and consumable	Rs.12000
Factory Indirect wages	Rs.15000
Lighting of factory	Rs.5500
Defective work	Rs.3000
Clerical salaries	Rs.33500
Selling expenses	Rs.5500
Sale proceeds of scrap	Rs.2000
Plant depreciation	Rs.11500
Selling Price per unit	Rs. 31.60

As from January 2010, The selling price was reduced to Rs.31 per unit. It was estimated that production could be increased in 2005 by 50% due to spare capacity. Rates for materials and direct wages will increase by 10%.

You are required to prepare:

- Cost sheet for the year 2009 showing various elements of cost per unit
- Estimated cost and Profit statement for 2010 assuming 15000 units will be produced and sold during the year and factory overheads will be recovered as a percentage of direct wage and office and selling expenses as a percentages of works cost.

Q-3 (a) Define the concept of Cost Audit and Management Audit. Also explain the objectives of Cost Audit. **07**

(b) The product of a company passes through 3 distinct process. The following information is obtained from the accounts for the month ending January 31, 2013. **07**

Particular	Process-A (Rs.)	Process-B (Rs.)	Process-c (Rs.)
Direct Material	7800	5940	8886
Direct Wages	6000	9000	12000
Production Overheads	6000	9000	12000

3000 units @ Rs. 3 each were introduced to process – I. There was no stock of materials or work in progress. The output of each process passes directly to the next process and finally to finished stock A/c.

The following additional data is obtained:

Particular	Output	Normal Loss (%)	Realizable Value of Scrap (Rs.) (P.U)
Process-1	2,850	5%	2
Process-2	2,520	10%	4
Process-3	2,250	15%	5

Prepare Process Cost Account, Normal Loss Account and Abnormal Gain or Loss Account

OR

Q-3 (a) What do you understand by Cost-Volume-Profit (CVP) Analysis? How CVP Analysis is useful for the management? **07**

(b) The under given data is supplied by Fair deal travel services, From the following information calculate fare for passenger KM. **07**

The cost of the Bus	Rs.4,50,000
Insurance charges	3 % p.a.
Annual tax	Rs. 4500
Garage rent	Rs.500 p.m.
Annual repairs	Rs. 4800
Expected life of the bus	5 yrs
Value of scrap at the end of 5 years is	Rs.30,000
Route distance	20 km long
Driver's salary	Rs. 550 p.m.
Conductor's Salary	Rs. 500 p.m.
Commission to Driver & conductor (shared equally) 10 % of the takings	
Stationary	Rs. 250 p.m.
Manager-cum-accountant's Salary	Rs.1750 p.m.
Diesel and Oil (for 100 kms)	Rs.125

The bus will make 3 rounds trips for carrying on the average 40 passenger's in each trip. Assume 15 % profit on takings. The bus will work on the average 25 days in a month.

Q-4 (a) What is over-absorption and under absorption? State the reasons for over and under absorption. **07**

(b) S. Ltd. manufactures and markets a single product. The following information is available: **07**

Materials	8.00 per unit
Conversion costs (variable)	6.00 per unit
Dealer's margin	10% on sales
Selling price	20.00 per unit
Fixed cost	Rs.2,50,000
Present sales	90,000 units
Capacity utilization:	60 %

There is acute competition. Extra efforts are necessary to sell. Suggestions have been made for increasing sales:

- (i) By reducing sales price by 5% **or**
- (ii) By increasing dealers margin to 25% on sales.

Which of the two suggestions you would recommend if the company desires to maintain the present profit?

Give reasons.

OR

Q-4 (a) What is cost plus pricing? Which are the most common methods of cost plus pricing? **07**

(b) Auto parts Ltd has an annual production of 90000 units for a motor component. The component cost structure is as below: **07**

Material	Rs.270 per unit
Labour (25% Fixed)	₹180
Expenses:	
Variable	₹90
Fixed	₹135

- a. The purchase manager has an offer from a supplier who is willing to supply the component at Rs.540. Should the component be purchased and production stopped?
- b. Assume the resources now used from this component manufacturer are to be used to product another new product from which the selling price is Rs.485. In the latter case, the material price will be Rs.200 per unit. 90000 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.

Q-5 (a) A company producing a standard product is facing declining sales and dwindling profits. It has therefore decided to introduce a standard cost system to control cost. To motivate workers to improve the productivity, the management has also decided to introduce an incentive scheme under which employees are paid 20% of the standard cost of materials saved and also 40% of the labour time saved valued at standard labour rate. **14**

The following are the details of the standard cost of the product.

Standard Cost per unit

Particular	Amount Rs.
Direct material: 10 kg @ Rs.12 each	120
Direct labour: 3 hours @ Rs.10 each	30
Variable overheads: 3 hours @ Rs.5 each	15
Fixed overheads [based on a budgeted output of 10000 units]	25
Total standard cost per unit	190
Selling price per unit	Rs.240

During one particular month 9600 units of the product were manufactured and sold incurring the following actual cost:

Particular	Amount
Direct materials 90000 kg	1210000
Direct labour 25000 hours	254000
Variable overheads 25000 hours	147000
Fixed overheads	250000
Total cost	1861000
Net profit	419000
Sales	2280000

Required: A] Variances that occurred during the month, duly reconciling the standard profits of actual production with actual profits. B] Bonus amount earned by the workers during the month under incentive scheme.

OR

Q-5 (a) The budgeted overheads and cost driver volumes of XYZ are as follows.

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Cost Pool	Budgeted Overheads (Rs.)	Cost Driver	Budgeted Volume
Material procurement	5,80,000	No. of orders	1,100
Material handling	2,50,000	No. of movements	680
Set-up	4,15,000	No. of set ups	520
Maintenance	9,70,000	Maintenance hours	8,400
Quality control	1,76,000	No. of inspection	900
Machinery	7,20,000	No. of machine hours	24,000

The company has produced a batch of 2,600 components of AX-15, its material cost was Rs. 130000 and labor cost Rs. 2,45,000. The usage activities of the said batch are as follows.

Material orders – 26, maintenance hours – 690, material movements – 18, inspection – 28, set ups – 25, machine hours – 1,800

Calculate – cost driver rates that are used for tracing appropriate amount of overheads to the said batch and ascertain the cost of batch of components using Activity Based Costing.