

Nepal Mountain Academy (NMA)
Bachelors in Mountaineering Studies
Pre-Board Examination-2020

Semester: 3 rd	Time: 3 hours
Subject: Management Accounting	Pass Marks: 30 Full Marks: 60

Candidates are required to answer the questions in their own words as far as practicable.

Group “A”

Brief Answer Questions:

[10 × 1 = 10]

1. How do you think the concept of management accounting would be useful in your career?
2. Which method of income recognition would you use to report the analysis to the internal management of the organization also explain why would you use the method?
3. What are labor costs? Explain with an example
4. Explain opportunity cost with an explain.
5. If a company sells a product at 100rs each which cost 50rs each to make, how many units does a company has to sell to breakeven when it pays 10,000 as fixed costs??
6. What is a budget? How would it be useful in any organization
7. What is a period cost? Explain with an example
8. Mention any two assumptions of CVP analysis
9. Mention why High Low method does not give accurate results?
10. When units produce is higher than the units sold, the Absorption costing method gives higher net operating income than Variable costing method. Justify the above statement.

Group B

Short Answer Questions

6x5=30

11. What do you understand by Management Accounting and how does it differ from Financial Accounting?
12. What do you understand by the term budget? Mention the importance of budgeting by explaining how can a company use the technique of budgeting to make managerial decisions?
13. Complete the following table:

	Units Produced and Sold		
	30,000	40,000	50,000
Total Costs			
Variable Costs	3,00,000	?	?
Fixed Costs	6,00,000	?	?
Total Costs	9,00,000	?	?
Cost per unit			
Variable Cost	?	?	?
Fixed Cost	?	?	?
Total Cost per unit	?	?	?

14. A company has the following transactions during the year 2076:

Sales	80,000 units
Beginning inventory	1000 units
Ending inventory	3000
Selling price per unit	Rs. 20
Variable Cost per unit :	
Raw materials	Rs. 5
Labor	Rs. 3
Manufacturing overhead	Rs. 2
Selling and distribution overhead	Rs. 1
Fixed Cost per year:	
Manufacturing overhead	Rs. 2,00,000
Office and Administration overhead	Rs. 50,000
Selling and distribution overhead	Rs. 80,000

Required:

- a. Income statement under variable costing
- b. Income statement under absorption costing

15. A company produces three products mountaineering products, A, B, C. The details of which are given below:

Activity	Amount
Machine Cost	1,68,000
Order Cost	2,00,260
Production Cost	2,24,000

Cost Driver	A	B	C
Machine Hour	4000	8000	12000
No of Order executed	4	12	56
No of Production runs	10	20	70

Required: Find out the cost per products by using activity based costing.

16. You plan to start a Vehicle rental company by buying a Mahindra Scorpio which cost Rs. 55,00,000. Your estimate suggests that the vehicle rental business will generate a fixed cash flow of 1,00,000 per month. The operational cost of running the business is estimated to be 80,000 per month. The Vehicle is expected to have a salvage value of 35 lakhs at the end of 5 years. Assuming the interest to be 10%, use NPV analysis to make the decision whether it is profitable to buy the vehicle or not.

Group 'C'

Comprehensive Answer Question

2x10=20

17. A company manufactures and sells travel equipment. The company's format income statement for the most recent year is given below:

	Total	Per unit	Percent of Sales
Sales(2400 units)	72000	30	100%
Variable expenses	36000	15	50%
Contribution Margin	36000	15	50%
Fixed Expenses	24000		
Net operating income	12000		

Management is anxious to increase the company's profit and has asked for an analysis of a number of items.

Required:

1. Compute the company's CM ratio and variable expense ratio.
2. Compute the company's break-even point in both units and sales dollars.
3. Assume that sales increase by Rs. 5,000 next year. If cost behavior patterns remain unchanged, by how much will the company's net operating income increase?
4. Refer to the original data. Assume that next year management wants the company to earn a profit of at least Rs. 15,000. How many units will have to be sold to meet this target profit?
5. Refer to the original data. Compute the company's margin of safety in both dollar and percentage form.
6. Compute the company's degree of operating leverage at the present level of sales. Assume that through a more intense effort by the sales staff, the company's sales increase by 8% next year. By what percentage would you expect net operating income to increase. Verify your answer to by preparing a new contribution format income statement showing an 8% increase in sales.
7. In an effort to increase sales and profits, management is considering the use of a higher-quality material. The higher-quality material would increase variable costs by Rs. 3 per unit, but management could reduce fixed cost by Rs. 3,000 per year. The sales manager estimates that the higher-quality speaker would increase annual sales by at least 20%.
 - a. Assuming that changes are made as described above, prepare a projected contribution format income statement for next year. Show data on a total, per unit, and percentage basis.
 - b. Compute the company's new break-even point in both units and dollars of sales.
 - c. Would you recommend that the changes be made?

18. A Mountaineering Company is considering a project that would have an eight-year life and require a 50,00,000 investment in equipment. At the end of eight years, the project would terminate and the equipment would have no salvage value. The project would provide net operating income each year as follows:

Sales	20,00,000
Variable Expenses	5,00,000
Contribution Margin	15,00,000
Fixed Expenses:	
Advertising, Salaries, and other fixed out of pocket costs 2,50,000	
Depreciation 2,50,000	
Total Fixed Expenses	5,00,000

Net Operating Income	10,00,000
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The company's discount rate is 12%.

Required:

- a. Compute the annual net cash inflow from the project.
- b. Compute the project's net present value.
- c. Is the project acceptable?
- d. Find the project's internal rate of return to the nearest whole percent.
- e. Compute the project's payback period.
- f. Compute the project's simple rate of return