MBA (FT)

Paper 6205: MANAGEMENT ACCOUNTING

Time: 3 Hours Maximum Marks: 50

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

Attempt *any five* questions. All questions carry equal marks.
Make suitable assumptions wherever necessary.

Q.1 Answer the following:

I. Y Ltd. prepared a draft budget for the next year as follows:

Quantity 10,000 units	Rs.
Selling price per unit	60
Variable cost per unit	
Direct Material	16
Direct Labor (2 hours x Rs. 6)	12
Variable overheads ((2 hours x Rs. 1)	2
Contribution per unit	30
Total Budget Contribution	3,00,000
Total Budgeted fixed overheads	2,80,000
Total Budget profits	20,000

The board of directors are not satisfied with this draft and suggested the following changes for better profit.

i. The budget profit is Rs 50,000.
ii. The company should spend Rs. 57,000 on advertisement and target sales price up to Rs. 64 per unit.
iii. It is expected that the sales volume will also rise, despite the price rise, to 12,000 units.

To achieve the extra production capacity, however, the work force must be able to reduce the time taken to make each unit of the product. It is proposed to offer a pay and productivity deal in which the wages rate per hour is increased to Rs. 8. This hourly rate for variable overheads will be unaffected.

You are required to calculate target labor time required to achieve the target profit. [6]

II. In the context of Activity Based Costing System, explain cost hierarchies with examples. [4]

Q.2 Answer the following:

I. X Ltd. is in the business of publishing a leading newspaper which has a wide customer base. It measures quality of services in terms of:

i. Print Quality
ii. On time Delivery
iii. Number of damaged and unsold paper

To improve its business prospects and performance, the company is considering installing a scheduling and tracking system which involve an annual additional cost of Rs. 3,00,000

beside equipment's costing Rs. 4,00,000 needed for the installation of system. To purchase the equipment, company is planning to utilize the proceeds of an investment fetching an annual income @ 9%.

Details regarding the present and future performance are given as under:

	Present	Expected
On-time delivery	85%	97%
Variable cost per lot of newspaper damaged and unsold	Rs. 40	Rs. 40
Fixed cost	50,000	50,000
No. of Lots of newspaper damaged and unsold	6,000	1,000

It is expected that each percentage increase in on time performance will result in revenue increase of Rs. 36,000 per annum. Required contribution margin is 40%.

Should X Ltd. Install the new system? [8]

II. Briefly explain master budgeting. [2]

Q.3 Answer the following:

I. A company is considering three alternative proposals for conveyance facilities for its sales personnel who must do considerable travelling, approximately 20,000 kilometres every year. The proposal is as follows:

A. Purchase and maintain its own fleet of cars. The average cost of a car is Rs. 1,00,0000.

B. Allow the executive to use his own fleet of car and reimburse expenses at the rate of Rs. 1.60 per kilometre and bear insurance costs.

C. Hire cars from an agency at Rs. 20,000 per year per car. The company must bear costs of petrol, taxes on tyres.

The following further details are available:

Petrol.....	Rs. 0.60 per Km
Repairs and maintenance...	Rs. 0.20 per Km
Tyres.....	Rs. 0.12 per Km
Insurance.....	Rs. 1,200 per car per annum
Taxes.....	Rs. 800 per car per annum
Life of the car.....	5 years with annual mileage of 20,000 kms
Resale value	Rs. 20,000 at the end of the fifth year

Work out the relevant costs of three proposals and rank them. [6]

II. Explain and illustrate Value Chain Analysis [4]

Q.4 A company operates a standard cost system to control the variable works cost of its only product. The following are details of actual production, costs and variances for November 2015.

Production and Cost (Actual)

Production	10,000 units
Direct Material (1,05,000 kg.)	Rs. 5,20,000
Direct Labor (19,500 hours)	Rs. 3,08,000
Variable overheads	Rs. 4,10,000

Costs Variances

Direct Material- Price	Rs. 5,000 (F)
Direct Material- Usage	Rs. 25,000 (A)
Direct Labor-Rate	Rs. 15,500 (A)

Direct Labor-Efficiency	Rs. 7,500 (F)
Variable overheads	Rs. 10,000 (A)

The Cost accountant finds that the original standard cost data for the product is missing from the cost department files. The variance analysis for December 2015 is held up for want of this date.

You are required to calculate:

i. Standard Price per kg. of direct material
ii. Standard Quantity for each unit of output
iii. Standard Rate of direct labor hour
iv. Standard Time for actual production
v. Standard Variable Overhead Rate [10]

Q.5 X Ltd. is a specialist car manufacturer that produces various models of cars. The organisation is due to celebrate its 100th anniversary next year. To mark the occasion, X Ltd. intends to produce a sports car: the model Royal. As this will be special edition, production will be limited to 1,000 numbers of Model Royal cars.

X Ltd. is considering using a target costing approach and has conducted market research to determine the features that consumers require in a sport car. Based on this market research and knowledge of competitor's products, company must decide to price in the model royal at Rs. 9.75 lacs. Company requires an operating profit margin of 25% of the selling price of the car. Details of the forthcoming year are as follows:

Forecast of direct costs for a model royal car -

Labor	Rs. 2,50,000
Material	Rs. 4,75,000

Forecast of annual overheads costs-

	In lacs	Cost driver
Production line cost	2,310	See note 1
Transportation cost	900	See note 2

Note 1: The production line that would be used for Model Royal has a capacity of 60,000 machine hour per day. The production line time required for model royal car is 6 machine hour per car. This production lien will also be used to make other cars and will be working at full capacity.

Note 2: Some models of cars are delivered to showrooms using car transports, 60% of the transportation costs are related to the number of deliveries made. 40% of the transportation costs are related to the distance travelled.

The transporters have forecast to make a total of 640 deliveries in the year and carry 10 cars each time. The car transporter will always carry its maximum capacity of 10 cars.

The total annual distance travelled by car transporters is expected to be 2,25,000 kms. 50,000 kms of this is for the delivery of model royal only. All 1,000 models royal cars produced will be delivered in the year using the car transporters.

Required:

A. Calculate the forecast total cost of producing and delivering a model royal car using activity based coting principles to assign the overhead costs.

B. Calculate the cost gap that currently exist between the forecast total cost and the target total cost of a model royal car. [10]

Q.6 Answer the following:

I. Distinguish between Fixed Budgets and Flexible Budgets. Give illustrations [5]

II. Distinguish between Management Accounting and Financial Accounting [5]