MBA (FT)

Paper 6205: MANAGEMENT ACCOUNTING

Maximum Marks: 50

Time: 3 Hours

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

Attempt *all* questions. Make suitable assumptions wherever necessary.

Q.1 Answer the following:

I. A company has a contribution margin ratio of 40%. By what percentage should sales be increased to offset 20% reduction in selling price? [3]

II. X Ltd. has furnished the following data for the two years:

	2017	2018
Sales	USD 800,000	?
Contribution Margin Ratio	50%	37.5%
Margin of Safety sales as a % of Total Sales	40%	21.875%

There has been substantial savings in the fixed cost in the year 2018 due to restructuring process. The company could maintain its sales quantity level of 2017 in 2018 by reducing selling price. You are required to calculate the following:

A. Sales for 2018 in Value B. Fixed Cost for 2018 C. Break-even Sales for 2018 in Value [5]

III. By noting "*Contribution Margin Ratio will increase or Contribution Margin Ratio will decrease or Contribution Margin Ratio will not change*" as the case may be, state how the following independent situations will affect the Contribution Margin Ratio. Give reasons:

A. An increase in physical sales volume
B. A decrease in variable cost per unit
C. An increase in selling price per unit
D. A 10% increase in both selling price and variable cost per unit
E. A 10% increase in the selling price per unit and 10% decrease in physical sales volume.
F. A 50% increase in the variable cost per unit and 50% decrease in the fixed cost. [6]

IV. Discuss classification of business activities under value chain analysis. Illustrate [3]

V. Distinguish between Job Costing and Process Costing or Direct Costs and Indirect Costs. Illustrate. [3]

Q.2 Answer the following:

I. X Ltd. has furnished the following information for the month ending June 30, 2017:

	Master Budget	**Actual**	**Variance**
Units produced and sold	80,000	72,000	
Sales USD	320,000	280,000	40,000 (A)
Direct Material USD	80,000	73,600	6,400 (F)
Direct Wages USD	120,000	104,800	15,200 (F)
Variable Overheads USD	40,000	37,600	2,400 (F)
Fixed Overheads USD	40,000	39,200	800 (F)
Total Cost	280,000	255,200	

The standard costs of the products are as follows:

	Per Unit ((USD
Direct Materials (1 Kg at the rate of USD 1 per Kg)	1.00
Direct Wages (1 hour at the rate of USD 1.50)	1.50
Variable Overheads (1 hour at the rate of USD 0.50)	0.50

Actual results for the month showed that 78,400 kg. of material were used and 70,400 labour hours were recorded. Required

A. Prepare Flexible Budget for the month and compare with actual results

B. Calculate Material, Labour, Variable Overhead and Fixed Overhead Variances [8]

II. X Company expects to successfully launch Toy Y based on Disney character. X Company must pay 15% royalty on the selling price to the Disneyland. X Company targets a selling price of USD 100 per toy and profit of 25% on selling price. The following are the cost data forecast:

	USD/Toy
Component H1	8.50
Component H2	7.00
Labour 0.40 hour @ USD 60 per hour	24.00
Product Specific Overheads	13.50

In addition, each toy requires 0.60 Kg of other materials, which are supplied at a cost of USD 16 per Kg with a normal 4% substandard quality which is not usable in the manufacture.

Required

Determine if the above cost structure is within the target cost. If not, what should be extent of cost reduction? [4]

III. X Ltd. is considering the discontinuance of Division C. The following information is given:

Particulars	Division A & B	Division C	Total
Sales (Maximum achievable)	4140,000	517,500	4657,500
Less: Variable Cost	2070,000	276,000	2346,000
Contribution	2070,000	241,500	2311,500
Less: Specific Avoidable Fixed Costs	1449,000	414,000	1863,000
Divisional Income	621,000	(172,500)	448,500

The rates of variable costs are 90% of the normal rates due to the current volume of operation. There is adequate market demand. For any lower volume of operation, the rates would go back to the normal rates. Facilities released by discontinuing Division C cannot be used for any other purpose. Comment on the decision to discontinue Division C using relevant cost approach. [4]

IV. X Ltd. sells two products J and K. The sales mix is 4 units of J and 3 units of K. The contribution margins per unit are USD 40 for J and USD 20 for K. Fixed costs are USD 616,000 per month. Determine break even quantity for X Ltd. as well as break even quantity for each of the two products J and K. [4]

Q.3 Answer the following:

I. Explain the evolution process of variance analysis. Illustrate [4]

II. Enumerate the qualities required to be displayed by a Cost Accountant. [3]

III. Distinguish between Financial Accounting and Management Accounting. Give suitable example. [3]

or

Q.4 Answer the following:

I. Discuss Activity Based Costing as a contemporary technique of Cost Management. Illustrate. [4]

II. Discuss the relevance of non linear cost functions in managerial decision making. [3]

III. Prepare an exhibit showcasing how costs flow within an organization. [3]