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 *all* questions. Make suitable assumptions wherever necessary.

Q.1 Answer the following:

I. If Moonlite Ltd. operates its plant at normal capacity it produces 2,00,000 units from the plant 'Meghdoot'. The unit cost of manufacturing at normal capacity is as under:

	Rs.
Direct material	65
Direct labour	30
Variable overhead	33
Fixed overhead	7
	135

Direct labour cost represents the compensation to highly-skilled workers, who are permanent employees of the company. The company cannot afford to lose them. One labour hour is required to complete one unit of the product.

The company sells its product for Rs. 200 per unit with variable selling expenses of Rs. 16 per unit. The company estimates that due to economic down turn, it will not be able to operate the plant at the normal capacity, at least during the next year. It is evaluating the feasibility of shutting down the plant temporarily for one year.

If it shuts down the plant, the fixed manufacturing overhead will be reduced to Rs. 1,25,000. The overhead costs are incurred at a uniform rate throughout the year. It is also estimated that the additional cost of shutting down will be Rs. 50,000 and the cost of re-opening will be Rs. 1,00,000.

Calculate the minimum level of production at which it will be economically beneficial to continue to operate the plant next year if 50% of the labour hours can be utilized in another activity, which is expected to contribute at the rate of Rs. 40 per labour hour. The additional activity will relate to a job which will be off-loaded by a sister company only if the company decides to shut down the plant. (Assume that the cost structure will remain unchanged next year. Ignore income tax and time value of money). [8]

II. In the context of Activity Based Costing System, explain the statement: "*Strategic cost analysis should exploit internal linkages*" [2]

Q.2 Answer the following:

I. PQR Ltd., a manufacturer of tool kits has just completed XY's domestic order of 100 kits at a price of Rs. 1,650 per kit. The details of cost for XY's order are:

	Cost (Rs.)
Direct material	90,000
Direct labour	32,000
Tools and Consumables	16,400
Variable overheads	9,600
Fixed overheads (allocated)	15,000
Total	1,63,000

The company wishes to evaluate a special export order from Expo Ltd. of similar 300 kits at Rs. 1,600 per kit. For the export order, special packing has to be done at Rs. 20 per kit. An additional fixed inspection cost specific to this export order has to be incurred. PQR Ltd. wishes to accept the export order at 10% profit on the selling price. What should be the maximum amount that can be incurred as inspection cost for making such an acceptance possible?

If Expo Ltd. offers to take the products without inspection, what is the maximum discount (as a percentage of the existing export price) that PQR Ltd. can offer to retain its 10% profit on the revised selling price? [8]

II. Make a sample Job Cost document and briefly explain it. [2]

Q.3 AXE Ltd. manufactures four products A, B, C and D. The following details are available for a production period:

	A	B	C	D
Selling price	100	109	121	124
Material cost	40	42	46	40
Labour cost				
Assembly Department @ Rs. 10 per hour	15	20	15	20
Machine Department @ Rs. 12 per hour	18	24	36	30
Variable overheads @ Rs. 4 per labour hour in assembly department	6	8	6	8
Maximum external demand (units)	40,000	55,000	36,000	30,000

Total fixed cost is dependent on output level and is tabulated below at different levels of output:

Production units (any combination of one or more of any A, B, C or D)	*Total fixed cost (Rs.)*
Zero to 1,00,000 units	8,43,000
1,00,001 to 1,50,000 units	12,50,000
1,50,001 to 2,00,000 units	16,00,000

Production facilities can be interchangeably used among products. Labour availability in assembly department is limited to 2,20,000 hours for production period. A local firm has offered to make any quantity of any of products on sub-contract basis at following rates:

	A	B	C	D
Sub-contract price (Rs./ Unit)	85	95	101	100

(i) Advise the management on how many units of each product are to be manufactured or subcontracted to fulfill maximum market demand. What would be the corresponding profits?

(ii) What is the minimum number of units to be produced to achieve break-even point?

(iii) What would you advise as the best strategy to maximize profits if assembly labour is not a limiting factor and if there is no compulsion to fulfill market demand? [10]

Q.4 Answer the following:

I. PQR Ltd. specializes in distribution of pharmaceutical products. It buys from pharmaceutical companies and resells to each of the three different markets: (i) General Supermarket Chains (ii) Drug Store Chains (iii) Chemist Shops

The company plans to use activity based costing for analyzing profitability of its distribution channels. The following data for the quarter ending March 2014 is given:

	General Supermarket	Drug Store Chains	Chemist Shop
Average sales per delivery	Rs. 96,500	Rs. 32,450	Rs.6225
Average cost of goods sold per delivery	Rs. 94,650	Rs.31,800	Rs. 5,950
Number of deliveries	960	2,470	8,570
Total number of orders	1,000	2,650	9,500
Average number of cartons shipped per delivery	250	75	12
Average number of hours of shelf stocking per delivery	2	0.5	0.1

The following information is available in respect of operating costs (other than cost of goods sold) for quarter ending March 2014:

Activity Area	Cost Driver	Total Cost
Customer purchase order processing	Purchase order by customers	5,91,750
Customer store delivery	Number of deliveries	9,60,000
Cartons dispatched to customer stores	Number of Cartons dispatched to customer stores	7,92,135
Shelf stocking at customer store	Hours of shelf stocking	80,240

Compute the operating income of each distribution channel for the quarter ending March 2014 using activity based costing. [8]

II. Distinguish between inventoriable costs and period costs. [2]

Q.5 Answer the following:

I. The following information is for 2006:

Static-budget machine-hours	33,000
Fixed overhead budget costs	Rs 49,50,000
Fixed overhead actual costs	Rs 45,00,000
Variable overhead actual costs	Rs 96,00,000
Variable overhead rate per machine-hour	Rs 300
Actual machine-hours used	30,000
Budgeted machine-hours allowed for actual output	35,000

Required: (A) Calculate variable overhead spending variance and efficiency variance. (B) Compute fixed overhead spending variance and production-volume variance. [4]

II. Distinguish between *any two* of the following:

A. Standard Costing *vs.* Budgetary Control

B. Financial Accounting *vs.* Management Accounting

C. Fixed Budgets *vs.* Flexible Budgets [6]