PGDM Batch 2013-15,

Management Accounting

DM-205

Trimester – II, End-Term Examination: December 2013

Time allowed: 2.5 Hours

Max Marks: 50

Roll No: ___________

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means.** In case of rough work please use answer sheet.
Make assumptions wherever necessary and write them down at the end of solution.

Sections	No. of Questions to attempt	Marks	Marks
A	3 out of 5 (Short Questions)	5 Marks each	3*5 = 15
B	2 out of 3 (Long Questions)	10 Marks each	2*10 = 20
C	Compulsory Case Study	15 Marks	15
		Total Marks	50

SECTION A

A 1. Explain briefly how changing competitive environment has impacted the role of managerial accounting?

A 2. Cochin Marine Company uses standard absorption costing and absorbs production overheads on the basis of standard machine hours. The following budgeted and actual information applied in its last accounting period:

	Budget	Actual
Production overhead	90000	89040
Machine hours	25000	24130
Units produced	20000	19380

At the end of the period how will be production overhead reported?

A 3 . A company is drawing its production plan for the coming year in respect of its product 'Gamma'. The company's policy is not to carry any closing wip, however it holds closing stock of finished goods at 50% of the anticipated quantity of sales of the succeeding month. For the next year, the company's budgeted production is 20,000 units of Gamma. The following is the estimated cost data:

Particulars	Gamma
Direct material per unit	Rs 50
Direct labour per unit	Rs 20
Other manufacturing expenses absorbed on the basis of production	Rs 2,00,000

The estimated units to be sold in the first 7 months of the next year are as under:

Particulars	April	May	June	July	August	September	October
Gamma	900	1100	1400	1800	2200	2200	1800

You are required to prepare a production budget showing month-wise (April to September) number of units to be manufactured & present a summarized production cost budget for the half-year ending September 30th.

A 4. *"Any price that exceeds variable cost is better than no work."* Discuss the validity of the comment and also explain briefly the absorption cost approach to pricing.

A 5. The following table sets out information in respect of Division X and Division Y.

	Division X	Division Y
Amount to be invested	Rs 4 million	Rs 4 million
Sales	Rs 2 million	Rs 2 million
Net profit	Rs 1.2 million	Rs 0.8 million
ROI of existing investment	33%	4%

The cost of borrowing new finance is 10% per annum.

Required: Explain what view the managers of each division might take, depending on the method of performance evaluation applied.

Section B

B 1. Performance Products Corporation makes two products, titanium Rims and Posts. Data regarding the two products follow:

	Direct Labor-Hours per Unit	Annual Production
Rims	0.40	20,000 units
Posts	0.20	80,000 units

Additional information about the company follows:

a. Rims require Rs. 17 in direct materials per unit, and Posts require Rs.10

b The direct labor wage rate is Rs.16 per hour.

c. Rims are more complex to manufacture than Posts, and they require special equipment.

d. The ABC system has the following activity cost pools:

Activity Cost Pool	Activity Measure	Estimated Overhead Cost	Rims	Activity Posts	Total
Machine setups	Number of setups	21,600	100	80	180
Special processing	Machine-hours	180,000	4,000	0	4,000
General factory	Direct labor-hours	288,000	8,000	16,000	24,000

Required:
1. Compute the activity rate for each activity cost pool.
2. Determine the unit cost of each product according to the ABC system, including direct materials and direct labor.

B 2. Vivek was recently hired by Santa Industry as production supervisor. The new supervisor has been on the job for five months and has seemingly brought under to an otherwise chaotic situation.

The Vice President of manufacturing recently commented that ".... Vivek has really done the trick." He was apparently commenting on the following data which was excerpted from a performance report:

Direct material variance, favourable	4,620
Direct labour variance, favourable	6,175

These variances are especially outstanding given that the amounts are favourable and small. Santa's budgeted material and labour costs generally each average about Rs. 3,50,000 for similar periods. Additional data follows:

The company purchased and consumed 45,000 pounds of direct material at Rs. 7.70 per pound and paid Rs. 16.25 per hour for 20,900 direct labour hours of activity. Total completed production amounted to 9,500 units.

A review of the firm's standard cost records found that each completed unit requires 4.2 pound of direct material at Rs. 8.80 per pound and 2.6 direct labour hours at Rs. 14 per hour.

Calculate the company's direct material and direct labour variances. On the basis of your answers, should Santa be concerned about its variances? Why?

B 3. (a) Outline and discuss the main objectives of a transfer pricing system

(b) Consider the advantages and disadvantages of

(i) market price-based transfer prices; and

(ii) cost-based transfer prices.

Outline the main variants that exist under each heading.

Section C

Midwest Mills has a plant that can mill wheat grain into a cracked wheat cereal and then further mill the cracked wheat into flour. The company can sell all the cracked wheat cereal that it can produce at a selling price of $490 per ton. In the past, the company has sold only part of its cracked wheat as cereal and has retained the rest for further milling into flour. The flour has been selling for $700 per ton, but recently the price has become unstable and has dropped to $625 per ton. The costs and revenues associated with a ton of fl our follow:

		Per Ton of Flour
Selling price		$625
Cost to manufacture:		
Raw materials:		
Enrichment materials	$ 80	
Cracked wheat	470	
Total raw materials	550	
Direct labor.	20	
Manufacturing overhead	60	630
Manufacturing profit (loss)		(5)

Because of the weak price for flour, the sales manager believes that the company should discontinue milling flour and use its entire milling capacity to produce cracked wheat to sell as cereal.

The same milling equipment is used for both products. Milling one ton of cracked wheat into one ton of fl our requires the same capacity as milling one ton of wheat grain into one ton of cracked wheat. Hence, the choice is between one ton of fl our and two tons of cracked wheat. Current cost and revenue data on the cracked wheat cereal follow:

		Per Ton of Cracked wheat
Selling price		$490
Cost to manufacture:		
Wheat grain	$390	
Direct labor.	20	
Manufacturing overhead	60	470
Manufacturing profit		$ 20

The sales manager argues that since the present $625 per ton price for the fl our results in a $5 per ton loss, the milling of fl our should not be resumed until the price per ton rises above $630.

The company assigns manufacturing overhead cost to the two products on the basis of milling hours. The same amount of time is required to mill either a ton of cracked wheat or a ton of flour. Virtually all manufacturing overhead costs are fixed. Materials and labor costs are variable.

The company can sell all of the cracked wheat and flour it can produce at the current market price.

Required:

1. Do you agree with the sales manager that the company should discontinue milling flour and use the entire milling capacity to mill cracked wheat if the price of fl our remains at $625 per ton? Support your answer with computations and explanations.
2. What is the lowest price that the company should accept for a ton of fl our? Again support your answer with computations and explanations