PGDM-IB, 2014-16

Managerial Accounting

IB 203

Trimester – II, End-Term Examination: December 2014

Time Allowed: 2 Hrs 30 mins **Max Marks: 50**

Sec A

(Answer any three questions out of five. Each question carries five marks)

1. Standard costs are the conclusions of managers and accountants as what something should cost. It is used to motivate employees to work efficiently because variances and responsibility can be identified more easily' – Discuss with reasoning.

2. Discuss the significance and computational techniques of Break Even Point (BEP).

3. Mr. Balcon carries on wine business and earns a gross profit (before charging commission) on 25% on cost. He has appointed a sole-selling agent to whom a commission at 10% on the selling price has been given. There are no other variable expenses. Fixed cost is Rs. 600 per month. Calculate the number of bottles he must sell every year so that he may earn a net profit of Rs. 6000 per annum. The selling price of wine per bottle is Rs. 25.

4. Compare the activity based costing (ABC) and the tradition method of overhead allocation.

5. Explain the meanings and features of relevant cost. Give suitable example to support your explanation.

Sec B

(Answer any two questions out of three. Each question carries ten marks)

6. The standard cost of a chemical mixture is:

40% material A at Rs. 20 per kg

60% material B at Rs. 30 per kg

A standard loss of 10% expected in production. During a period the use is:

90 kgs material A at cost of Rs. 18 per kg

110 kgs material B at cost of Rs. 24 per kg

The weight produced is 182 kgs of good product.

Calculate

i) Material Price Variance

ii) Material Mix Variance

iii) Material Yield Variance

iv) Material Cost Variance

(10 marks)

7. From the following particulars, find the most profitable product mix and prepare a statement of profitability of that product mix:

Particulars	**Product A**	**Product B**	**Product C**
Units budgeted to be produced and sold	1800	3000	1200
Selling Price/unit (Rs.)	60	55	50
Direct material /unit	5	3	4
Direct labour/unit	4	3	2
Variable Overhead/unit (Rs.)	7	13	8
Fixed overhead/unit (Rs.)	10	10	10
Cost of direct material / kg (Rs.)	4	4	4
Direct Labour Hour Rate (Rs.)	2	2	2
Maximum possible units of sales	4000	5000	1500

All the three products are produced from the same direct material using the same type of machines and labour. Direct labour which is a key factor, is limited to 18600 hours.
(10 marks)

(10 marks)

8. Write short notes on the following: (2.5 marks x 4)

a) Budgetary Control

b) Target Costing

c) Kaizen

d) P/V Ratio

Sec C

(Compulsory)

9. The Columbus Company produces only two products: a major computer part and cell phones. The company uses a normal cost system and overhead costs are currently allocated using a plant-wide overhead rate based on direct labor hours. Outside cost consultants have recommended, however, that the company use activity-based costing to charge overhead to products.
The company expects to produce 4,000 computer parts and 2,000 cell phones in 1999. Each computer part requires two direct labor hours to produce and each cell phone requires one-half hour to produce. The direct material and direct labor costs included in the two products are as follows:

Item	Computer Part	Cell Phone
Direct Material / unit	Rs. 30	Rs. 17
Direct Labour / unit	Rs. 16	Rs. 4

Budgeted (Estimated) Total Factory Overhead Data For 1999:

Activity	Budgeted Overhead (Rs.)	Estimated volume level
Production Set Up	80000	20 setups
Material Handling	70000	5000 kgs
Packaging and Shipping	120000	6000 boxes

Based on an analysis of the three overhead activities, it was estimated that the two products would require these activities as follows in 1999:

Activity	**Computer Parts**	**Cell phones**	**Overall Totals**
Production Setups	5 setups	15 setups	20 setups
Material Handling	1000 kgs	4000 kgs	5000 kgs
Packaging and shipping	4000 boxes	2000 boxes	6000 boxes

Required:
1. Calculate the cost of each product using a plant-wide rate based on direct labor hours.
2. Calculate the activity cost rates for (a) setups, (b) material handling and (c) packaging and shipping.
3. Cost out the two products using an activity-based costing system.
(15 marks)