

M.Com. DEGREE EXAMINATION NOVEMBER 2007
COMMERCE
FIRST SEMESTER

COURSE : **MAJOR – CORE**
PAPER : **COST AND MANAGEMENT ACCOUNTING**
TIME : **3 HOURS** **MAX. MARKS : 100**

SECTION – A

ANSWER ANY FIVE QUESTIONS: (5 x 8 = 40)

1. J Ltd purchases a component whose details are as follows:
Cost per component Rs.200
Cost of an order is Rs.100
Annual cost of carrying 1 unit of inventory is 10% of purchase price.
Annual requirement 4000 units
Calculate Economic Order Quantity.
If the supplier offers a discount of 5%, if the entire annual requirement is placed in a single order what would you advice be?
2. An operator engaged in machining certain components receives at ordinary rate of Rs.1.60 per day of 8 hours. The standard output for machining the component has been fixed at 80 pieces per hour (time as fixed for premium bonus). On a certain day, the output of the worker on this machine is 800 pieces. Find the labour cost per 100 pieces and the wages that would have been earned by the workman under the following:
a) If a bonus of Re.0.23 is paid per 100 of the extra output.
b) If paid for on straight piece-work basis at the standard rate.
c) If Halsey premium bonus system is being adopted (50 – 50).
3. Gemini Enterprises undertakes three different jobs A, B and C. All of them require, the use of a special machine and also the use of a computer. The computer is hired and the hire charges workout to Rs.4,20,000 per annum. The expenses regarding the machine are estimated as follow:
Rs.
Rent for the quarter 17,500
Depreciation per annum 2,00,000
Indirect charges per annum 1,50,000
During the first month of operation, the following details were taken from the job register:

Job	A	B	C
Number of hours the machine was used:			
a) without the use of the computer	600	900	-
b) with the use of the computer	400	600	1,000

You are required to compute the machine hour rates separately for the machine and for the computer. Also calculate the overheads charged to job A, B and C during the month.

4. Compute the net monetary gain or loss of X Company as on 31/12/2006, from the relevant data given below:

	1/1/06	31/12/06
	Rs.	Rs.
Cash	5,000	10,000
Debtors	20,000	25,000
Loan	15,000	20,000
Retail price index was as follows:		
January 1, 2006	200	
December 31, 2006	300	
Average for the year	250	

5. From the following prepare Balance Sheet:

Working capital	Rs.75,000
Bank Overdraft	Rs.60,000
Liquid Ratio	1
Long term Debt to net worth	0.2
Reserves surplus	Rs.1,00,000
Current ratio	2.2
Fixed asset to net worth	0.80

6. Explain the merits and limitations of Ratio Analysis.
7. Distinguish between "Allocation Apportionment" and "Absorption of Overheads".
8. Define "Labour Turnover" and state its causes. Explain any two methods of computing Labour Turnover.

SECTION – B

ANSWER ANY THREE QUESTIONS:

(3 x 20 = 60)

9. The following is the Balance sheet of X Ltd., on 31/12/2006

	Rs.		Rs.
Equity capital (Rs.10 each)	20,00,000	Fixed Assets	16,60,000
Reserves	6,20,000	Stock	16,50,000
10% Debentures	4,60,000	Debtors	5,50,000
Creditors	7,70,000	Cash	4,40,000
Tax provision	4,50,000		
	<u>43,00,000</u>		<u>43,00,000</u>

Other information:

Sales Rs.55,00,000; Cost of goods sold Rs.33,00,000; Administration and selling expenses Rs.10,50,000.

Prepare the P/L account and Balance sheet in vertical form.

Calculate the following ratios and also give the interpretation of each ratio:

- Gross profit ratio
- Operating profit ratio
- Return on capital employed
- Interest coverage ratio
- Earnings per share
- Debtors' collection period
- Current ratio
- Debt equity ratio

10. The Balance Sheet of ABC Ltd on 31/12/2004 and 31/12/2005 are as follows:

	2004	2005		2004	2005
	Rs.	Rs.		Rs.	Rs.
Equity Capital (Rs.10)	1,00,000	2,00,000	Machinery	1,20,000	2,60,000
P/L A/c	30,000	50,000	Furniture	30,000	40,000
12% Debenture	50,000	1,50,000	Stock	50,000	40,000
10% ICICI bank loan	50,000	-	Debtors	30,000	60,000
Creditors	20,000	25,000	Cash	10,000	5,000
Tax provision	40,000	60,000	Bank	50,000	80,000
	<u>2,90,000</u>	<u>4,85,000</u>		<u>2,90,000</u>	<u>4,85,000</u>

- Machinery worth Rs.50,000 were purchased and paid for by the issue of equity shares.
- Depreciation provided on machinery Rs.30,000 and on furniture Rs.5,000.
- Furniture of the book value of Rs.10,000 was sold at a loss of Rs.4,000.
- During the year 2005, income tax Rs.50,000 and interim dividend Rs.8,000 were paid.

Prepare Fund Flow statement.

11. The Balance Sheet of XYZ Co. as on 31/12/2005 and 31/12/2006 are given below:

	2005	2006		2005	2006
	Rs.	Rs.		Rs.	Rs.
Equity capital (Rs.10)	1,00,000	1,50,000	Fixed assets	2,00,000	3,50,000
P/L a/c	40,000	80,000	Investments	40,000	60,000
General Reserve	30,000	50,000	Stock	60,000	50,000
12% Debentures	1,00,000	2,00,000	Debtors	50,000	70,000
Creditors	80,000	50,000	Cash	20,000	30,000
Tax provision	80,000	1,00,000	Bank	60,000	70,000
	<u>4,30,000</u>	<u>6,30,000</u>		<u>4,30,000</u>	<u>6,30,000</u>

Income statement for the year ended 31/12/2006

		Rs.
Sales		20,00,000
Less: Cost of goods sold		<u>15,00,000</u>
Gross profit		5,00,000
Less: Adm. & selling expenses	2,50,000	
Depreciation	46,000	
Loss on sale of fixed assets	10,000	
Interest	<u>24,000</u>	<u>3,30,000</u>
Profit before tax		1,70,000
Less: Provision for tax		70,000
Profit after tax		1,00,000
Less: Interim Dividend	40,000	
Transfer to Reserve	<u>20,000</u>	<u>60,000</u>
Retained earnings		<u>40,000</u>

During the year 2006, a machine whose book value is Rs.40,000 was sold for Rs.30,000/- . Prepare Cash Flow statement.

12. ABC Ltd produces four products, details of which are given below:

Product	A	B	C	D
Output (in units)	120	100	80	120
Material per unit (in Rs.)	40	50	30	60
Labour per unit (in Rs.)	28	21	14	21
Machine hours per unit	4	3	2	3
No. of production runs	6	5	4	6
No. of requisitions raised	20	20	20	20
No. of orders executed	12	10	8	12

The total production overheads are currently absorbed by using a machine hour rate. The Production overheads have been analysed as follows:

Overheads	Amount (Rs.)	Cost Driver
Machine debt. Cost	10,430	Machine hours
Set-up costs	5,250	No. of Production runs
Stores receiving expenses	3,600	Requisitions raised
Quality control	2,100	No. of production runs
Material dispatching	<u>4,620</u>	Orders executed
Total:	<u>26,000</u>	

Calculate:

- a) The total cost of each product, if a blanket rate based on Machine hours is used for recovering overheads
 - b) Total cost of each product using activity based cost.
13. Explain:
- a) Perpetual inventory control
 - b) Any 2 methods of overhead absorption.
 - c) Labour turnover and its causes.
 - d) Sunk cost and opportunity cost with example.
 - e) Responsibility accounting.

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